

3 1761 11649358 6







CA  
Z 1  
-44C21

Government  
Publications

Cage

Canada. Royal commission on co-operatives.

-Proceedings. v. 1, 1945.

1945





Digitized by the Internet Archive  
in 2023 with funding from  
University of Toronto











A.R.  
C. XVII

Canada, Co-operative, Royal Commission

(ROYAL COMMISSION  
ON  
CO-OPERATIVES)

---

1945

---

PROCEEDINGS  
(OFFICIAL REPORT)

---

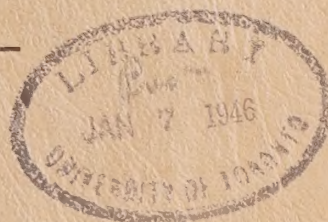
VOLUME No. I

PLACE Vancouver, B. C.

DATE January 15, 16, 17, 18, 1945

PAGES 1 - 459

---



T. S. HUBBARD  
OFFICIAL REPORTER

441850  
9. 1. 46

Mr. Vaughan





Presented to  
**The Library**  
of the  
**University of Toronto**  
by

J.J.Vaughan Esq.

# ROYAL COMMISSION ON CO-OPERATIVES

Vancouver, B. C., January 15 - 18, 1945

## VOLUME I

(Pages 1 - 459)

| <u>C O N T E N T S</u>   | <u>Page</u> |
|--|-------------|
| Chairman, opening statement  | 1           |
| British Columbia Co-operative Union --<br>C. D. Clarke   | 5 - 13      |
| British Columbia Co-operative Association --<br>F. O. Blake  | 22 - 29     |
| Masset Co-operative Association --<br>Mrs. S. L. Simpson   | 67 - 75     |
| Co-operative Wholesale Society of British<br>Columbia -- L. H. C. Phillips   | 88 - 93     |
| Surrey Co-operative Association --<br>H. Bose  | 121         |
| Fraser Valley Milk Producers Association --<br>W. L. Macken  | 158 -183    |
| Independent Dairy Operators --<br>Mr. Farris   | 201         |
| Island Farms Co-operative Association --<br>R. Cheyne  | 201 -202    |
| Robert Cheyne, examined  | 204         |
| Brief, Mr. Farris  | 210         |
| Brackman-Ker Milling Company Limited;<br>Buckerfield's Limited; United Milling &<br>Grain Company Limited; Scott & Peden Limited --<br>R. H. Tupper, K. C.   | 244         |
| E. E. Buckerfield, President, Buckerfield's<br>Limited   | 258         |
| A.B.C. Packing Company; B.C. Packers Limited;<br>Canadian Fishing Company Limited; Cassiar<br>Packing Company Limited; Colonial Packers<br>Limited; Great West Packing Company Limited;<br>Johnston Fishing & Packing Company Limited;<br>Francis Millerd & Company Limited; National<br>Fisheries Limited; Nelson Brothers Fisheries<br>Limited; Nootka Banfield Company Limited;<br>North Shore Packing Company Limited; Queen<br>Charlotte Fisheries Limited; J.H. Todd & Sons<br>Limited; Westminster Cannery Limited<br>C. H. Locke | 283         |





C O N T E N T S (cont'd)

ii

Page

|  |     |
|--|-----|
| Oral statement and questioning   | 315 |
| Rossland Co-operative Transportation Society --<br>John Gordon   | 325 |
| British Columbia Credit Union League --<br>J. W. Burns   | 341 |
| Mutual Fire Insurance Company of British Columbia --<br>W. J. Barrett-Lennard                                  | 375 |
| Salmon Arm Farmers' Exchange --<br>P. E. Pike  | 392 |
| Nanaimo Creamery Association -- filing of brief  | 406 |
| Armstrong Co-operative Association -- filing of<br>brief   | 407 |
| Saanich Fruit Growers Association; Saanich Bulb<br>Growers Association -- filing of briefs                     | 407 |
| Kamloops Board of Trade -- letter submitted;<br>no appearance  | 408 |
| Retail Merchants Association of Canada --<br>letter submitted  | 408 |
| Vancouver Board of Trade -- memorandum submitted,<br>no appearance   | 409 |
| Co-operative Commonwealth Federation, B. C. section --<br>Mrs. D. G. Steeves, brief                            | 409 |
| Dolph Browne Limited; B. C. Fruit Shippers<br>Limited; McLean & Fitzpatrick Limited --<br>Robert Cheyne, C. A. | 430 |
| Vancouver, Victoria and New Westminster<br>Insurance Agents' Associations --<br>Cameron Craig                  | 451 |

.....





---

Vancouver, B. C., January 15 - 18, 1945

---

| <u>ALPHABETICAL INDEX</u>  | <u>Page</u> |
|--|-------------|
| A.B.C. Packing Company - Mr. Locke   | 283         |
| Armstrong Co-operative Association -- filing of<br>brief                       | 407         |
| Barrett-Lennard, W. J. -- Mutual Fire Insurance<br>Company of British Columbia | 375         |
| Blake, F. O. -- British Columbia Co-operative<br>Seed Association, brief       | 22-29       |
| Bose, H. -- Surrey Co-operative Association                                    | 121         |
| Brackman-Ker Milling Company Limited -- Mr. Tupper                             | 244         |
| British Columbia Co-operative Seed Association --<br>Mr. Blake, brief          | 22          |
| British Columbia Co-operative Union --<br>Mr. Clarke, brief                    | 5           |
| British Columbia Credit Union League -- Mr. Burns                              | 341         |
| British Columbia Fruit Shippers -- Mr. Cheyne                                  | 430         |
| British Columbia Packers Limited -- Mr. Locke                                  | 283         |
| Buckerfield's Limited -- Mr. Tupper  | 244         |
| Burns, J. W. -- B. C. Credit Union League                                      | 341         |
| Cassiar Packing Company Limited -- Mr. Locke                                   | 283         |
| Cheyne, Robert   |             |
| B. C. Fruit Shippers   | 430         |
| Island Farms Co-operative Association  | 201         |
| Correction p.30 of brief (transcript p.203)                                    | 283         |
| Okanagan Valley Fruit & Vegetable<br>Packers and Shippers                      | 430         |
| Clarke, C. D. -- British Columbia Co-operative<br>Union                        | 5           |
| Colonial Packers Limited -- Mr. Locke  | 283         |
| Co-operative Commonwealth Federation, B.C. Section-<br>Mrs. Steeves, brief     | 409         |
| Co-operative Wholesale Society of B. C. --<br>Mr. Phillips, brief              | 88-89       |
| Craig, Cameron -- Insurance Agents' Associations                               | 451         |
| Dolph Browne Limited   | 430         |
| Francis Millerd & Company Limited -- Mr. Locke                                 | 283         |
| Fraser Valley Milk Producers Association --<br>Mr. Macken, brief               | 158         |
| Addenda to main brief, filing of   | 375         |
| Gordon, John -- Rossland Co-operative Transportation<br>Society                | 325         |
| Great West Packing Company Limited -- Mr. Locke                                | 283         |
| Ham, Mr. -- joint stock insurers   | 386         |
| Howe, A. T. Orchards Limited   | 430         |





| <u>ALPHABETICAL INDEX</u> (cont'd)   | <u>Page</u> |
|--|-------------|
| Independent Dairy Operators, brief, Mr. Farris   | 201         |
| Insurance Agents' Associations -- Mr. Craig  | 451         |
| Island Farms Co-operative Association, brief,<br>Mr. Farris  | 201         |
| Correction p. 30 of brief (transcript p.203)   | 283         |
| Joint Stock Insurers; fire, casualty, automobile --<br>Mr. Ham   | 386         |
| Johnston Fishing & Packing Company Limited --<br>Mr. Locke   | 283         |
| Kamloops Board of Trade -- letter filed;<br>no appearance  | 408         |
| Keremeos Fruits Limited  | 430         |
| Kyuquot Trollers Co-operative Association --<br>ref. to in brief of A.B.C. Packing Company<br>and others         | 290         |
| Macdonald, R. H. & Sons Limited  | 430         |
| McLean & Fitzpatrick Limited   | 430         |
| Macken, W. L.<br>Fraser Valley Milk Producers Association  | 158-183     |
| Addenda to main brief, filing of   | 375         |
| Masset Co-operative Association -- Mrs. Simpson  | 67-75       |
| Mutual Fire Insurance Company of British<br>Columbia -- Mr. Barrett-Lennard                                      | 375         |
| Nanaimo Creamery Association -- filing of brief  | 406         |
| National Fisheries Limited -- Mr. Locke  | 283         |
| Nelson Brothers Fisheries Limited -- Mr. Locke   | 283         |
| Nootka-Banfield Company Limited -- Mr. Locke   | 283         |
| North Shore Packing Company Limited -- Mr. Locke   | 283         |
| Occidental Fruit Company Limited   | 430         |
| Okanagan Valley Fruit and Vegetable Packers<br>and Shippers -- Mr. Cheyne  | 430         |
| Okanagan Valley Land Company Limited   | 430         |
| Pike, P. E. -- Salmon Arm Farmers' Exchange  | 392         |
| Prince Rupert Fishermen's Co-operative Association--<br>ref. to in brief of A.B.C. Packing Company and<br>others | 290         |
| Queen Charlotte Fisheries Limited  | 283         |
| Retail Merchants Association of Canada --<br>letter filed  | 408         |
| Rossland Co-operative Transportation Society --<br>Mr. Gordon  | 325         |
| Saanich Fruit Growers Association; Saanich Bulb<br>Growers Association -- filing of briefs                       | 407         |
| Salmon Arm Farmers' Exchange -- Mr. Pike   | 392         |
| Scott & Peden Limited -- Mr. Tupper  | 244         |
| Simpson, Mrs. S. L. -- Massett Co-operative<br>Association   | 67          |





ALPHABETICAL INDEX (cont'd)

v

Page

Sittings:

|   |     |
|---|-----|
| Monday morning                                    | 1   |
| Monday afternoon                                  | 36  |
| Tuesday morning                                   | 87  |
| Tuesday afternoon                                 | 157 |
| Wednesday morning                                 | 244 |
| Wednesday afternoon                               | 341 |
| Thursday morning                                  | 408 |
| .....   |     |
| Steeves, Mrs. D. G. -- C.C.F., B.C. Section       | 409 |
| Surrey Co-operative Association, Mr. Bose         | 121 |
|   |     |
| Todd, J. H. & Sons Ltd.                           | 283 |
| Tupper, R. H., K. C., for milling companies       | 244 |
|   |     |
| United Milling & Grain Company Limited --         |     |
| Mr. Tupper  | 244 |
| Unity Fruit Company Limited                       | 430 |
|   |     |
| Vancouver Board of Trade -- memorandum submitted, |     |
| no appearance                                     | 409 |
| Vancouver, Victoria and New Westminster           |     |
| Insurance Agents' Associations                    | 451 |
|   |     |
| Walters Limited                                   | 430 |
| Westminster Cannery Limited                       | 283 |

.....





# ROYAL COMMISSION ON CO-OPERATIVES

---

The Commission appointed to inquire into the present position of co-operatives in the matter of income and excess profits tax, organization and business methods and operations, and the comparative position of persons engaged in business directly competitive therewith, met in Vancouver, B. C., on Monday, January 15, 1945, with sittings continuing on January 16, 17 and 18.

---

## PRESENT:

|  |                      |
|--|----------------------|
| The Hon. Mr. Justice ERROL M. McDOUGALL, | Chairman             |
| B. N. ARNASON                            | Commissioners        |
| G. A. ELLIOTT                            |                      |
| J. M. NADEAU                             |                      |
| J. J. VAUGHAN                            |                      |
| Eugene T. Parker, K. C.,                 | Counsel              |
| H. D. Woods                              | Associate Registrars |
| J. A. Chapdelaine                        |                      |
| G. W. Ross                               | Executive Secretary  |

---

## APPEARANCES:

|                          |  |
|--------------------------|--|
| W. B. Francis, K. C.     | Ten Cooperative Associations                               |
| R. H. Tupper, K. C.      | Four feed and grain companies                              |
| C. H. Locke, K. C.       | A.B.C. Packing Co. & others                                |
| G. S. Thorvaldson, K. C. | Income Tax Payers Association                              |
| A. Leslie Ham            | Joint stock insurers--fire, automobile & casualty business |
| J. W. deB. Farris, K. C. | Independent dairies  |
| W. P. Fillmore, K. C.    | Private grain interests                                    |
| W. Howard, K. C.         | Private grain interests                                    |
| R. H. Milliken, K. C.    | Saskatchewan cooperatives                                  |
| S. Scarth, K. C.         | Manitoba pools   |

---





MORNING SESSION

Vancouver, B. C.,  
January 15, 1945.

The Commission met at 10 a. m.

THE CHAIRMAN: My colleagues, gentlemen of the Bar, and gentlemen, I think an opening statement should now be read.

The present Commission has been constituted under and in virtue of order in council No. 8725, dated November 16th, 1944, for the purpose of inquiring into --

(a) the present position of cooperatives in the matter of the application thereto of the Income Tax Act and the Excess Profits Tax Act, 1940, and

(b) the organization and business methods and operations of the said cooperatives as well as any other matters relevant to the question of the application of income and profits tax measures thereto, and

(c) the comparative position in relation to taxation under the said Acts of persons engaged in any line of business in direct competition with cooperatives,

and reporting in so far as the same can conveniently be done, all facts which appear to them to be pertinent for determining what would, in the public interest, constitute a just, fair and equitable basis for the application of the Income War Tax Act and the Excess Profits Tax Act, 1940 to cooperatives and to persons other than cooperatives in respect of methods of doing business analogous to cooperative methods, such as the making of payments commonly called patronage dividends and to make such recommendations for the amendment of existing laws as they consider to be justified in the public interest.

Adherence to the foregoing terms of reference is





essential to the prompt and efficient completion of the labours of the Commission, and I venture to hope that Counsel appearing before us will be guided by this observation.

I need hardly point out that it is no part of the mission with which we are entrusted to try any particular case or to make a ruling in regard to the tax liability of any person or organization. We shall endeavour merely to find the facts upon which an intelligent report may be delivered, leaving to other authority, as, if and when it is deemed advisable, to implement such recommendations as we may consider appropriate.

I take great pleasure in introducing to you my colleagues: to my right is Mr. B. W. Arnason of Regina, Saskatchewan; to my left is Mr. G. A. Elliott of Edmonton, Alberta; on the extreme left is Mr. J. M. Nadeau of Montreal, and at the right is Mr. J. J. Vaughan, of Toronto. Mr. E. T. Parker, K. C., of Halifax, is Counsel to the Commission and will, in a moment, be prepared to discuss with appearers or their Counsel all details relating to the presentation of their submission. It is hoped thus to avoid redundancy in the hearing of cases and to facilitate the speedy disposal of the work before us. The Registrar of the Commission, Major H. D. Woods, of Calgary, will have charge of all the records and the arrangements of the hearings.

The briefs submitted have been docketed in the order of their receipt by the Commission and will, as far as convenient, be heard in that sequence. There have been filed for presentation in Vancouver, briefs. In the short time at our disposal we must endeavour to proceed as expeditiously as possible. In the event of unfinished



business, we shall be compelled to refer such cases to a later hearing in Ottawa in March, when the Commission has completed its itinerary. We are now prepared to proceed with the business in hand and I should be glad to have Counsel declare their appearances and to make any observations which they may see fit to make.

To facilitate the hearings, I think it would now be advisable for the Commission to take a short recess, in order that Counsel may confer with Commission Counsel with a view to determining the order in which the cases are to be presented and the details of such presentation.

(After a brief recess)

MR. PARKER: Mr. Commissioners, as suggested by yourselves, I have conferred with Counsel, and although we have not arranged a complete programme for the whole hearing, we have made some considerable progress. It has been arranged, with the consent of all parties interested, that the hearings shall begin with that group of institutions represented by Mr. Francis.

Mr. Francis proposes, I believe, to begin with the British Columbia Cooperative Union and to follow then with some of the members of that Union -- individual cooperative societies. After the brief has been read, if that is the procedure you desire, he will support the facts in part with one or more witnesses in respect of each. Following that, it has been suggested that cross-examination should proceed thus. One man may be particularly interested in fish and not in fruit, and it is felt that it might be desirable to ask him questions





with relation to that branch of industry, so that questions with respect to fruit might be left to the man interested in that subject.

THE CHAIRMAN: Do I understand that the submission by the British Columbia Cooperative Union will cover most of the ground except as regards the details of each industry?

MR. PARKER: The meat of the thing, I understand, will be given in the individual briefs. Subject to your ruling in that respect, we have tentatively agreed to proceed in that order; and so far as cross-examination is concerned, I have urged upon Counsel, while doing complete justice to their cause, not to be longer than they feel absolutely necessary to accomplish the purpose in view. I have reasonable assurance that they will try to meet that suggestion.

I suggest that the hearing begin by calling upon Mr. Francis to present his brief on behalf of the British Columbia Cooperative Union.

The question was also discussed about exchanging briefs. I pointed out that the Commission felt they could in no sense be an exchange centre for the interchange of briefs, that all briefs filed were private and confidential until formally presented in Court.

THE CHAIRMAN: Subject to such private arrangements as the parties might make among themselves.

MR. PARKER: Yes. I therefore suggested that, if it were possible, as Counsel presented a brief, if there were half a dozen extra copies they might be exchanged with other Counsel. That is purely a matter





for themselves and it has met with the approval of a good many. In a great many cases the matter will be taken care of in that way.

THE CHAIRMAN: That seems to follow from the fact that this is not a trial in any sense but merely an investigation. Is that all, Mr. Parker?

MR. PARKER: That is all.

THE CHAIRMAN: Will you present your brief now, Mr. Francis?

MR. FRANCIS: The first submission will be of an introductory nature. It is from the British Columbia Co-operative Union and will be presented by Mr. C. D. Clarke, Secretary of the Union.

THE CHAIRMAN: Do you propose to have him read it?

MR. FRANCIS: Yes, Mr. Chairman. I wish to have it presented in that way.

Statement of C. D. Clarke,  
British Columbia Cooperative Union

MR. CLARKE: Mr. Chairman and gentlemen of the Commission, may I say on behalf of the British Columbia Cooperative Union that the announcement of these sittings appeared in the newspapers on December 19, on the approach of the holiday season, and as we enjoy our holidays out here we have not had the time we would like to have had to devote to the preparation of the case. The mail service to the communities in which some cooperatives are located is weekly or bi-monthly, and a great deal of communication had to be carried out by telegraph and long distance telephone, which at best was not altogether satisfactory for the preparation of briefs of this nature. However, we trust you will give due consideration to our submissions.



Mr. Chairman, the following is our brief:

"Submission to the Royal Commission on  
Co-operatives by the British Columbia  
Co-operative Union."

"The British Columbia Co-operative Union is an association of many British Columbia co-operatives of various types -- producers, consumers, service and credit unions. The Union was formed at a co-operative conference held in March 1944 for the purpose of performing for the member associations such services as education and co-ordination, direction, encouragement and protection of co-operative effort; and to serve as a link between them and the Co-operative Movement in other parts of Canada through membership in the Co-operative Union of Canada.

Membership.

"Membership in the Union is open to such associations which adhere to the principles and practices of co-operation as laid down by the Rochdale Society of Equitable Pioneers and which generally conform to the following definition:-  
'A co-operative society is a society of unlimited duration and having a variable and unlimited membership and capital, in which the members organize their individual activities and interests as primary producers or ultimate consumers through common action for a specific purpose, with a view to improving their social and economic position, without thought of profit and on the basis of distributing any eventual surpluses proportionately to the use made by each member of the common enterprise.' A co-operative would also include federations of such societies.

Legislation and Administration.

"The first Co-operative Associations Act in British Columbia was passed in 1896 as Chapter 10 of that





year. Incorporation was under the Registrar of Joint Stock Companies. The Act enabled seven or more persons who desired 'to associate themselves together for the purpose of carrying on any labour, trade or business -- whether whole-sale or retail' to become incorporated.

Attention is drawn to the following provisions:

Each member was limited to one vote.

An association was required to have share capital with limited liability and to use the word 'limited' as part of its name.

The profits of the association could be applied to any lawful purpose, but before commencing operations, an association was required to agree upon a set of bylaws or rules including the mode of application of its profits.

Disputes between members and the association were to be settled by arbitration.

The Act also contained the usual features found in a joint stock company statute.

"There was no substantial change in the Act in either the 1897 Consolidation (Chapter 17) or the 1911 Consolidation (Chapter 48).

"By Chapter 19 of 1920 a further Consolidation was enacted, which included important changes and which is substantially the same as the Act now in force which is briefly reviewed hereafter.

"It should be noted that the 1920 Act also repealed the Industrial and Provident Societies Act which had first been enacted in 1891 and re-enacted in subsequent consolidations. This Act had provided for the registration of Societies for carrying on any labour, trade or handicraft,





whether wholesale or retail, including the buying and selling of land. Section 53 of the 1920 Act also provided that every Society incorporated under or governed by the Agricultural Act should be deemed to be Associations under the new Act. The Agricultural Act had provided for the incorporation by twenty-five or more persons of an Association to promote the progress of agriculture, horticulture, and for other purposes related to agriculture.

"The present Co-operative Associations Act is Chapter 53 RSBC 1936. Any five or more persons may form an incorporated association under the Act for the purpose of carrying on, with few exceptions, any lawful industry, trade or business. The capital consists of an unlimited number of shares. The liability of members is limited to the amount unpaid on shares although an association is not permitted to use the word 'limited' as part of its name. The surplus (referred to in the Act as 'profits') must be apportioned by first setting aside a reserve fund, secondly by paying dividends as the rules provide, not exceeding 8%, on the paid up share capital and thirdly, 'by distributing among such patrons or such class or classes of its patrons as the association may, subject to its rules, determine, whether members or not, and whether vendors to or purchasers from the association, the whole or any portion of its remaining profits'. 'Profits' not so apportioned may be devoted to the propagation of co-operative principles or the general purposes of the association.

"A member may withdraw from an association or transfer his shares.

"Provision is made in the Act for the division of territory, in which an association has members, into



"Incorporation comes under the Registrar of Companies and permission for the sale of shares is granted by the Superintendent of Brokers. Other than this there is no supervision of co-operatives and nothing to ensure that organizations conform to the above definition.

"From government records and from what to our knowledge are co-operatives which in general conform to the above definition and which were in operation in 1944, we have compiled the following summary:

| <u>Producer</u> |                |       | <u>Consumer</u> |                |
|-----------------|----------------|-------|-----------------|----------------|
| <u>Number</u>   | <u>Members</u> |       | <u>Number</u>   | <u>Members</u> |
| Fruit           | 33             | 3484  | General         | 18 3470        |
| Creamery        | 8              | 3209  | Grocery         | 5 1166         |
| Fish            | 6              | 2356  | Feed            | 11 2308        |
| Milk            | 5              | 5071  | Fuel            | 1 183          |
| Cheese          | 1              | 327   | Lumber          | 1              |
| Tobacco         | 1              | 20    | Meat            | 2 425          |
| Seed            | 3              | 400   | Wholesale       | 1 26           |
| Egg             | 3              | 313   |                 |                |
| Vegetable       | 1              |       | Totals          | 39 7578        |
| Livestock       | 2              | 1686  |                 |                |
| Fibre Flax      | 1              | 85    |                 |                |
| Canning         | 1              | 108   |                 |                |
|                 |                |       | <u>Service</u>  |                |
|                 |                |       | Transportation  | 7 2021         |
|                 |                |       | Machinery       | 2 16           |
|                 |                |       | Publishing &    |                |
|                 |                |       | Supplies        | 1              |
|                 |                |       | Cold Storage    | 1 194          |
|                 |                |       | Boarding House  | 2 116          |
|                 |                |       | Halls           | 6 571          |
| Totals          | 65             | 17059 | Totals          | 19 2918        |

• • • • •

"Co-operatives have been listed according to their primary function. For example, if a producers co-operative has a consumer department or a processing operation, it is listed only as a producer, and, similarly, if a consumer co-operative markets produce for its members it is listed only as a consumer. No co-operative is listed more than once.





"Since it is not possible for each group listed to make submissions, briefs will be presented as follows:

Producers' Co-operatives will be represented by:-

1. Nanaimo Creamery Association, a farmers co-operative with forty years successful operation.
2. Salmon Arm Farmers' Exchange which is the oldest fruit co-operative in the province having been incorporated in 1907.
3. B. C. Co-operative Seed Growers Association which has a province-wide operation.
4. The Massett Co-operative Association which is a fish co-operative on the northern part of Queen Charlotte Islands.

"We had hoped that the Prince Rupert Fishermen's Co-operative Association, which has a membership of 1087 and a turnover last year of \$1,400,000, would have made a submission at the hearings in Vancouver. This is not possible as the Manager, Mr. J. Deane, who is fully conversant with the fish operation, is in the east in connection with his work as a member of the Fisheries Research Board of Canada.

"We respectfully ask that the brief of the Prince Rupert Fishermen's Co-operative Association be received at hearings in Ottawa on the return of the Commission from Halifax, when Mr. Deane will be available.

"Another Producer organization which will present a brief later in the hearings is the Fraser Valley Milk Producers' Association.

"Service Co-operatives will be represented by an outstanding transportation co-operative, the



5. Rossland Co-operative Transportation Society, one of the seven such organizations operating in the south eastern part of the province.

"Consumers Co-operatives will be represented by the,

6. Surrey Co-operative Association which is a feed co-operative operating in the Fraser Valley.
7. Armstrong Co-operative Society which is a consumers store.
8. Co-operative Wholesale Society of British Columbia, a federation of co-operatives.
9. The B. C. Credit Union League will make a submission for Credit Unions in the province.

General.

"In closing we would submit that co-operation generally conforming to the definition above stated are non-profit organizations and are not liable to income tax or excess profits tax. This will be substantiated by the factual briefs which will now be presented.

"Respectfully submitted,

British Columbia Co-operative Union

Per:

L. H. C. Phillips,  
President

C. D. Clarke,  
Secretary.

"

Dated at Vancouver, B. C.  
January 13, 1945.





THE CHAIRMAN: With regard to the question of definitions, I think you are a brave men to attempt one, Mr. Clarke.

MR. CLARKE: That is quite true, sir. I remember once in college we were asked to write a definition of "human nature". Well, I do not know that anyone has ever yet written a definition of that term. However, we submit this definition that is here given. We believe that as you go across Canada you will have many definitions presented to you, but in our opinion this is about the best one that can be given. At any rate, it is the best that we can give. As far as the fish cooperatives are concerned, I should explain that one did not report membership; and in the fruit, two did not report.

MR. PARKER: If my learned friend now wishes to state any facts out of the mouth of the witness, the witness ought to be sworn.

THE CHAIRMAN: Is Mr. Clarke a witness now?

MR. FRANCIS: No. I wish to call individual witnesses to substantiate each picture.

MR. ELLIOTT: Can you give us any information, Mr. Clarke, as to the way in which the cooperatives mentioned have been selected? Was it on the basis that they would give us a cross-section of the various industries?

MR. CLARKE: That is correct.

MR. ELLIOTT: Was any consideration given to the question of size to ensure that the one selected to give evidence here would be of average size, or average length of life, or rate of growth or anything of that kind, or was it largely a matter of convenience?

MR. CLARKE: It was largely a matter of convenience.



In so far as we were able to do so, we endeavoured to select representatives of typical cooperatives from the group, but we have not in all cases been able to select an average cooperative. You will note from the summary that there are not a very large number of cooperatives in British Columbia. To illustrate my point, the Rossland Cooperative Transportation Society is a representative society from seven other transportation societies, and the seven have met and have approved of the presentation which will be made by Mr. Gordon on behalf of Rossland.

THE CHAIRMAN: They have delegated Rossland as representing them?

MR. CLARKE: Yes. Generally speaking, that is the approach we have tried to make in order to avoid duplication, so that you would not have witnesses from three or four transportation societies with the same story. In order to avoid that, we have tried to group them.

C. D. CLARKE,  
British Columbia Cooperative Union,  
having been duly sworn testified  
as follows:

BY MR. VAUGHAN:

Q. How many cooperatives are in this union altogether? A. There are 36 in the membership, I believe.

Q. Thirty-six in this association?  
A. Thirty-six in the Union.

Q. And how many briefs presented for?  
A. All named except the British Columbia Cooperative Seed Association.

Q. There are briefs representing the thirty-six?





A. No.

Q. Altogether, how many are there briefs for?

THE CHAIRMAN: There are eleven listed here.

THE WITNESS: Yes; and the only one that is not at present a member of the Cooperative Union is the British Columbia Cooperative Seed Association.

MR. VAUGHAN: That is, eleven of the thirty-six?

THE WITNESS: Yes. Of course, the Union has presented a brief.

MR. VAUGHAN: I just wanted to get an idea.

THE WITNESS: Our Union was started last March and began to function in May, and we are gathering membership at the present time. A great many cooperatives have deferred the question of becoming members until the annual meeting, and the annual meetings have not been held.

MR. ARNASON: Mr. Clarke, from what source did you get the statistics -- from the Province or the Dominion, or from both?

THE WITNESS: From the provincial government, the office of the Superintendent of Brokers. In that list of cooperatives are included such cooperatives as conform to the definition.

THE CHAIRMAN: Have you any questions, Mr. Francis?

MR. FRANCIS: No, Mr. Chairman.

THE CHAIRMAN: Have other Counsel any questions?

MR. PARKER: There are a few questions which I wish to ask Mr. Clarke.

BY MR. PARKER:

Q. How many member units are there in your Association? A. Thirty-six. One of the 36 is not incorporated; that is to say, it is an educational



body.

Q. But I am asking how many there are.

A. Thirty-six.

Q. You have asserted in quotations the definition of "cooperative society". Is that your definition or is that a quotation from some authority? A. We assume responsibility for the definition; that is to say, we have gathered the substance of it from different sources and put it in our own words. We call it our own.

Q. By "we", whom do you mean? A. The Co-operative Union.

Q. Or is it your own personally? A. No.

Q. Do you subscribe to it personally as a satisfactory definition? A. For the time being. We may want to revise it.

Q. Does a true cooperative, in principle, vary from day to day or from year to year in this country, or does it remain a more or less permanent type?

A. Well, a cooperative grows, and inasmuch as human beings are not perfect cooperatives are not perfect. But they can go on and better themselves.

Q. Yes, but that is scarcely an answer to my question. A. You say, do they vary from day to day?

Q. In nature? Would the definition change from day to day and from year to year? A. No. I think the definition is a definition of a cooperative. Cooperatives, in general at least, conform to the definition, though there may be a variation in conforming to it.

THE CHAIRMAN: I take it you are satisfied with the definition?





THE WITNESS: Yes, sir. I am, at the present time.

BY MR. PARKER:

Q. But if you were here five years from now, following a great many changes, you might have a different one? A. I hope so.

Q. And it is your phraseology -- you propose it? A. We compiled the definition.

Q. I know; but one person cannot very well give evidence on behalf of others. Is this your individual definition or is it the result of the committee's deliberations? A. It is the result of the committee that has worked on this.

Q. I notice it is suggested that the society, as you define it, has no thought of profit in its business anywhere. Is that correct? A. Yes.

Q. You are incorporated under the British Columbia Co-operative Associations Act of 1936? A. Yes.

Q. Are you familiar with that act? Reasonably familiar? A. Well, I try to make myself fairly familiar with it. I can present copies of the Act.

THE CHAIRMAN: We have copies.

BY MR. PARKER:

Q. Running through the Act, I find that it refers time and again to the profits of associations incorporated thereunder. Do you remember that? A. Yes, surely.

Q. To your mind, does that Act, and do the associations incorporated thereunder, contemplate an association having profits? A. We think the Act is wrong.

Q. That is not what I asked you. It might very



well be wrong; I am not saying that it is not. We will come to that again. Do you understand the question?

A. Ask the question again.

(The question was read to the witness)

Q. I suggest that your answer is not responsive to the question. Will you answer it? A. Does it contemplate cooperatives having profits? The Act may do so, but our cooperatives as we think of them under this definition do not speak of profits or do not contemplate profits.

Q. Does the British Columbia Cooperative Union have any assets? A. No; we are an association --

Q. Answer the question. Do they have assets?  
A. No.

Q. A bank account? A. We have a bank account.

Q. And the money represented by that bank account is deposited in whose name? A. In the name of the British Columbia Cooperative Union.

Q. And that Union or its proper officials issue cheques against that bank account? A. Yes.

THE CHAIRMAN: From what source do the moneys in that account come?

THE WITNESS: The union is supported by dues from member associations.

BY MR. PARKER:

Q. The Associations are your only source of revenue? A. Yes

Q. And that money does belong to the Union once they get membership fees? A. Yes.

Q. Well, it does have assets to that extent?  
A. I suppose so.





Q. Have they any physical assets like offices or buildings -- one thing or another? A. We have one or two rubber stamps. We haven't even got a desk in the name of the Union.

Q. You are getting settled though? A. Oh yes.

Q. And you intend to have your own office and office furniture and equipment? A. Yes; that is so.

Q. And possibly go on from there to what else? A. Strictly educational work.

Q. By "educational" you mean developing co-operative ideas? A. Yes; developing the cooperative movement.

Q. Your rule is one member society one vote? A. Yes; one member society one vote.

Q. You have no share capital? A. No.

Q. At the bottom of page 3 of the brief -- following up the question asked by Mr. Arnason -- this statement appears: "From government records and from what to our knowledge are cooperatives which in general conform to the above definition and which were in operation in 1944, we have compiled the following summary." It is rather a matter of opinion, is it not, as to how many do conform? What is the standard whereby one can determine whether they conform? A. If the cooperative in general conforms to that definition with regard to the set-up in its operation.

Q. But suppose it conformed generally and departed in some important particular. That might change the nature of the beast, might it not?

A. Well --

Q. Perhaps we will not press that. Coming back to the question of your definition, you say that a



cooperative society is a society of unlimited duration. Do you mean that it cannot be dissolved or terminated or wound up? A. It may be wound up but there is no set time for it to be wound up. It may be in operation for years and years. We hope it will be.

Q. It is not incorporated for so many years? You do not mean it is supposed to go on forever?

A. Yes. Cooperation, we hope, will go on forever.

Q. The idea is permanence? A. Yes, permanence.

Q. You go on to say that "the members organize their individual activities and interests as primary producers or ultimate consumers through common action for a specific purpose." What is the specific purpose that must be common to all these true cooperatives? A. A purpose with a view to improving their social and economic position.

Q. That is their sole purpose? A. That is the great purpose.

Q. You say "common action for a specific purpose." Is that the one? A. Improving their social and economic position.

Q. "Improving their social and economic position"? I suppose we can pursue that at length, as to what constitutes a man's social position or what constitutes his economic position. A. That is a large question.

Q. These are pretty wide terms, are they not? A. Yes.

Q. Why do you use the word "surplus" in your definition instead of the word "profit", which is used in the Act under which you have your birth and being? A. We did not take the definition from the Act.

Q. I know you did not



THE CHAIRMAN: Is your client a lawyer, Mr. Francis?

MR. FRANCIS: No, Mr. Chairman; I do not believe so.

THE WITNESS: In our cooperatives, in all our associations, in our Union, in the cooperative movement, we speak of surpluses that might arise from trade relations with members, and that is not profit.

BY MR. PARKER:

Q. I do not want to stop you, but the Act under which you have your existence is an Act dealing with profits. In your opinion that Act is wrong? A. Yes.

Q. What word do you suggest the Act should have used where it uses the word profit? A. I think surplus should be used.

Q. Surplus over what? A. Surplus arising from trade relations with members. You notice on page 3 we refer to "profits" in quotation marks.

Q. Yes. I see that. A. Well, that is why we have set it out in that way.

Q. You agree with me that your association is a legal entity; it is separate and apart, in its existence, from individual unions which form its membership? A. Our cooperative union?

Q. Yes. A. We are not as yet incorporated. The Union is not incorporated.

Q. I thought you said you were incorporated under the Act? A. No, I didn't.

Q. I am sorry. I will not pursue the matter, then.

MR. ARNASON: With regard to the definition, let me put the question this way: Are you satisfied that all member unions of the Cooperative Union conform?

THE CHAIRMAN: Do your member cooperatives adopt the definition contained on page 1 of the brief?





THE WITNESS: They have not exactly adopted it, but when we accept an association as a member it must be passed by our board of directors.

MR. ARNASON: Are you satisfied that your member unions comply with the wording of this definition?

THE WITNESS: They comply fairly well with the wording of the definition.

MR. ARNASON: There are no important departures?

THE WITNESS: No, not that I know of.

MR. ELLIOTT: Has your association ever refused membership to any association asking for it?

THE WITNESS: Not yet.

THE CHAIRMAN: Is that all, Mr. Parker?

MR. PARKER: Yes, Mr. Chairman.

MR. FRANCIS: To clear up one point, I understood my learned friend to refer to an association of a variable nature. May I call attention to the definition: ".....having a variable and unlimited membership and capital." The word membership is qualified by "variable". I do not think variable is used to qualify the word nature. I wish to have that clear, that the nature is not variable, but the membership; and in the very nature of things that is to be expected. I think I should clear that point up.

THE CHAIRMAN: As far as the Cooperative Union is concerned, that closes its brief -- the Union itself?

MR. FRANCIS: Yes.

THE CHAIRMAN: Which one do you wish to take up now?

MR. PARKER: Mr. Francis wishes me to point out that in his list of associations there are a couple whose witnesses cannot be heard at the moment, so that he cannot take them



in the order listed.

THE CHAIRMAN: Let him take them in the order that suits his convenience.

MR. FRANCIS: I wish to have presented next the brief on behalf of the British Columbia Cooperative Seed Association, a representative producers association dealing in seeds-vegetable and flower seeds. This is No. 4 on my list. Mr. F. O. Blake will present it. May I say that with regard to a number of witnesses swearing to this testimony, it must be understood of course that it is to the best of their information and belief, because much of it is compiled from their financial statements, some of it coming within their personal knowledge. That qualification would apply to some of the statistics given. The brief will be read by Mr. Blake.

Statement of F. O. Blake,  
British Columbia Cooperative  
Seed Association

MR. BLAKE: Mr. Chairman, gentlemen of the Commission, ladies and gentlemen: We have had only a brief time in which to get this ready and our cooperative is quite a young one. You might bear that feature in mind. It is widely scattered, and owing to the fact that it is widely scattered it was impossible to contact the directors of the concern to help in preparing the brief. I am manager of the concern, and with Counsel and the Vice-President we have done our best to try to bring before you what we thought were some facts that might help you in arriving at a decision in the matter which has been entrusted to you. Do you wish me to read the brief?

THE CHAIRMAN: I think we had better follow that course.





MR. BLAKE: (Reading)

"Brief of British Columbia Co-operative Seed Association for presentation in Vancouver to The Royal Commission on Co-operatives."

"1. Brief History."

"In 1940 it became necessary for the Vegetable Seed Producers scattered throughout the Province to the number of approximately 60 to arrange for the contracting for sale, handling, assembly and delivery of their production through a Co-operative. Growers were not only beginning to cut one another's prices to unreasonable levels, but were also beginning to interfere with the very necessary isolation for different varieties with consequent disaster to all concerned, particularly, in some areas such as Grand Forks where the farms are very close to one another.

"Owing to the fact that the Producer Groups were so widely scattered, it was decided that the usual Co-operative set-up would be very difficult to operate, so that on official advice a non-profit joint stock company was formed to carry on the necessary business.

"By 1942, there was a large increase in the volume to be handled, due to the war effort. By this time also the Growers felt that a Co-operative was necessary in order to safeguard against losses, and to make grower control secure by the plan of one Member one vote. Plans were commenced, Provisional Directors appointed and the present Co-operative was formed and commenced to function in June 1943, by taking over full control of the original joint stock company. The co-operative is formed under the Co-operative Association Act of British Columbia.

"2. Service Given"

"Some of the services provided by the Association



to its members are:

- (a) Arranges production with members.
- (b) Contracts to sell the members' production of seeds to the Seed Trade, the British Food Mission through Special Products Board, the Agricultural Supplies Board of Canada and for Export.
- (c) Plans localities for different crops and arranges variety zones to avoid crop cross pollination, guides and directs members in all production.
- (d) Arranges for Inspection of crops, roots, bulbs and seed by Plant Products Division Inspectors throughout the entire year.
- (e) Cleans, processes, blends and prepares for market, according to grade, the members' seeds, assembles and delivers all production.

"Members are mainly scattered throughout Southern British Columbia, with a small number in the central part of the province.

### "3. Structure.

"The Association is incorporated under the Co-operative Association Act of British Columbia, and is governed by its Regulations. The capital consists of an unlimited number of non-interest bearing shares of ten dollars value each. At the present date, there are issued 351 shares to 351 members. The Rules and Regulations, governing the operation of the Association, are contained in the Memorandum of Association and Rules attached hereto. The following are special features:

- (a) Membership is divided into five districts.



(b) Each district elects two delegates.

(c) Delegates appoint one director from each district.

"The administration of all finances is in the hands of the Directorate which is appointed annually and which causes Annual Report and Statement to be issued to all members before each annual meeting.

"4. Disposition of Earnings and Relation to Taxation.

"The Association contracts at basic figures with its members and a percentage of non-members to grow the seeds required in each crop year. After these contract amounts are paid, expenses met, and Statutory Reserve provided for, the balance in hand is distributed pro rata to the members. Whether paid out in cash or by being placed into Members' Reserve Accounts or by both methods, amounts credited to Members' Reserve Accounts bear no interest and are normally repayable in five years. Any deficit in any year is also chargeable pro rata to Members' Reserve Accounts, according to their deliveries of that year. Members receiving their final payments at the end of five years or as provided by the Directors then become taxable individually for these amounts, in addition to the amounts they receive in cash from current crops and from other sources of income.

"The Association at present has no undivided profit except the Statutory Reserve required by law to be set aside. The Association has been assessed no Income Tax, being exempt under the Income War Tax Act.

"The Association could not have purchased its equipment, its foundation stockseeds, its stock of seeds, or gathered a staff together had it not been able to finance with money withheld for a period of years from its members. which monies differ from the capital of an individual,





partnership, or corporation, in that they are repayable to the members in a period of years and constitute a loan only.

"We are attaching our Statement as at the close of the last fiscal year, May 31st 1944, which will show our present position. The amount shown as surplus of \$107,693.07 was transferred by the Directors to the Members' Reserve Accounts, pro rata, according to their deliveries and is therefore a final payment to them.

"5. Benefits to Growers.

"Vegetable seed production is affected by climate, insects, disease and many other hazards. The Association can, therefore, arrange for production of the same kind and variety among various districts and members, and so spreading the risk of possible failures. This protection cannot be offered by a grower or small group of growers.

"The unifying of the quality of members' production by use of up-to-date efficient machinery and processes can be provided by the Association, but could not be provided by the individual growers. In other words, it was essential the growers cooperate and provide this service through an Association of members.

"6. Value in Production Control.

"The distribution of seed to members for multiplication by this Association can be so arranged as to avoid the possibility of cross fertilization by allotting production to certain separate zones or districts. Individual growers have never been able to arrange this satisfactorily and in some instances disastrous results have formerly occurred to all growers within the specified distance, and to the seed firms for whom these crops were being produced.



"7. Business with Non-Members.

In 1943-1944 season, approximately 8% of purchases were from non-members and were made for the following reasons:

- (a) To cover shortages of production of our members.
- (b) To purchase stock seeds which our members are not in a position to produce.

To date no allocation of surplus has been made to non-members.

"8. Service in Present Emergency.

"This Association of Growers has amalgamated and directed the efforts of our members to conform to the requests of the British Food Mission, through the Special Products Board and the Agricultural Supplies Board, Ottawa, to:

- (a) Produce and maintain sufficient supplies of vegetable seed necessary to maintain food supplies required for consumption and processing in Canada, whether when processed they were needed for consumption in Canada, Allied Countries or the Services.
- (b) Consistently increased production annually by adding members or by existing members increasing production, so as to provide the British Food Mission and Allied Nations with urgently required and vitally necessary vegetable seeds.

"9. Results Achieved.

"It might be pointed out that of all the original vegetable seed producers in the Province of British Columbia only a small minority failed to join the Co-operative



Association. Of those who joined the Association, many brought with them the business they had in the course of years built up with the firms in Canada and Britain, pooling this business for the benefit of the Association at large.

"As a result of the application of Co-operative principles, growers have been encouraged to produce to the maximum possible capacity which has enabled the Association to supply more than half of the amounts in vegetable seeds required from this Province by the Special Products Board, the Agricultural Supplies Board and the Canadian Seed Trade.

"10. Submission.

"The benefits to the growers and the community have been touched upon, herein, and it has been pointed out that monies earned and held by this Association are held in trust for members, and that these monies become taxable when received by members. Therefore, we respectfully submit that the present system of taxation as it applies to our Co-operative Association is fair and equitable.

"Respectfully submitted January 12, 1945.

British Columbia Co-operative Seed  
Association

Per: "F. O. Blake"

.....

Documents filed with brief:

Exhibit "A" - Statement of Revenue and Expenses for  
the eleven months ended May 31, 1944.

Exhibit "B" - Balance Sheet as at May 31, 1944.

Pamphlet - Memorandum of Association and Rules  
of  
British Columbia Co-operative Seed  
Association.





THE CHAIRMAN: Mr. Blake, what do you mean by cross-fertilization?

MR. BLAKE: Perhaps that is a word that needs some explanation. Plants are classed into three groups. One group consists of those that are self-pollinated. Two varieties can be grown within a few feet of each other. Then there is the group of insect-pollinated, which must be separated by a quarter of a mile to prevent a red onion, for example, being crossed with a white onion. The next is the wind-pollinated group which, being carried by the wind, must be separated by at least one mile.

THE CHAIRMAN: Do you offer Mr. Blake as a witness?

MR. FRANCIS: Yes, Mr. Chairman.

F. O. BLAKE,  
British Columbia Cooperative  
Seed Association,  
having been duly sworn testified  
as follows:

---

BY MR. FRANCIS:

Q. Mr. Blake, there are just one or two questions I wish to ask you. With reference to page 3, paragraph 5, where it says that the association can arrange production, has the association actually done considerable along that line?

A. Definitely. That is its entire business, or a part of its business at any rate.

Q. And that has been one of your main activities?

A. Yes, an important part.

Q. About what proportion of business of this kind, of the province of British Columbia, would be handled by this association? A. It would be difficult to say accurately until possibly a few weeks, but I would estimate between 60 and 70 per cent, possibly between 60 and 80; but from 60 to 70 at any rate.



BY MR. PARKER:

Q. Mr. Blake, did you follow carefully the definition of "cooperative society" as given to us by the last witness? A. Perhaps I might interject that, sitting at the back, it was difficult to hear many things.

Q. I think it is essential.

THE CHAIRMAN: I am sure the witness is familiar with it.

BY MR. PARKER:

Q. You have seen the definition? A. I don't recall ever having seen it personally.

Q. I will ask you to read this definition as given in the brief. Does that meet with your approval? Would you subscribe to that as a satisfactory definition? A. Without examining it carefully it would be difficult to say as to one of the meanings there, but personally I would be inclined say that would be a fair definition of an association, though it might not necessarily be the view of each individual member; and I am wondering whether you are asking if that is the definition of each association or whether it represents the view of each member.

Q. Perhaps neither. What I had in my mind was this: I am assuming that you are somewhat familiar with the workings of these cooperative associations, are you not? A. Yes.

Q. And I am asking whether this meets your personal view as a satisfactory definition. A. May I answer in this way: It does, in that a cooperative is there solely to handle the funds of its members and not to make a profit.

Q. It is your answer, whatever you say. My question is merely whether you approve of that as a satisfactory definition? You may approve or disapprove, or approve it in part, or anything you like. A. A cooperative may make in



one year what might be described as a profit, perhaps using as a better term the word surplus; it is hard to say where one begins and the other ends, since they are handling members' funds. Perhaps "surplus" is better.

Q. Do you concede that cooperatives do make profits?

A. I would say a better term is the word surplus arising from the handling of the funds of their members.

Q. That is not the question. Do you concede that your cooperative earns profits? A. May I ask you a question?

Q. No, you may not. You are the witness.

THE CHAIRMAN: It would rather upset things if we allowed that, Mr. Blake.

BY MR. PARKER:

Q. It is your job to answer. A. One may not ask "What is a profit?" in order to answer your question?

Q. You may ask it of certain people but you cannot ask it of me and expect an answer in this Court. I am asking you the question. If you would rather not answer it, say so. A. I would prefer to have the word profit defined before answering.

Q. You can give your own definition. You can give it any meaning you like. Do you concede that cooperatives make profits, and particularly does the one on behalf of which you are speaking make a profit. First there is the question of general principle, and then the question as it relates to your particular association. Take them one at a time. A. We are not earning profits as a cooperative with the exception of the statutory reserve which we are required by law to maintain.

Q. That is your answer? A. Yes.

Q. Is that all you want to say? A. Yes.





Q. Your association -- speaking now of the seed association -- is incorporated under the British Columbia Act? A. Yes.

Q. That is the Act of 1936? A. Yes.

Q. And that Act prescribes a set of rules which are to be found in the schedule to the Act? A. Yes.

Q. Rules which may be adopted by any association receiving a charter, either as printed or with such modifications as may be adopted. Is that correct? A. Yes.

Q. You are familiar with the rules? A. The Act itself provides certain specified provisions and each association may adapt the rules to their individual needs.

Q. You have the Act, and it says that you may make rules; and it prescribes a set of rules which you may adopt, or you may make certain changes? A. Subject to the Registrar's approval.

Q. Yes. In your association, did you adopt the rules or did you modify them? A. They have been modified. Perhaps we should use the word, not enlarged, but adapted to a widespread organization, which was a matter of necessity. Our members are unable to meet in one body.

Q. But you did not adopt the standard rules -- you made certain changes? A. Yes.

Q. Are you reasonably familiar with the rules of your association? A. Yes.

Q. Kindly turn to page 15 of the rules in this little book -- I suppose yours is the same as mine? A. Yes.

Q. You have Rule 61? A. Yes.

Q. I will read it to you: "The affairs of the association shall be conducted so as to conform with the exemption permitted cooperative associations under the



Income Tax Act." Why was that put there? A. It was put there to guard against trading with non-members beyond the exemption allowed under this Act, and to remind members that that must be so -- and those who govern the company.

Q. That is the so-called 20 per cent clause?

A. Yes.

Q. That is what it was put in for? A. Yes, to remind the directors that they must do that.

Q. Why don't you say so in plain language -- that this association shall not at any time do business to a greater extent than 20 per cent? A. Because this answers the question equally well.

Q. I am saying this not by way of criticism, but was it thought that by merely stating in the rules that the company was being conducted so as to be entitled to the same exemption, it was automatically exempted? A. No; I did not say that.

Q. As a matter of fact, what are the qualifications that a cooperative must have in order to be entitled to the exemption under that section?

MR. FRANCIS: I do not think that anyone can answer that.

MR. PARKER: If he objects I will withdraw the question.

MR. FRANCIS: I object on his behalf.

MR. PARKER: Very well.

THE CHAIRMAN: You do not want a ruling, Mr. Parker?

MR. PARKER: No, Mr. Chairman.

BY MR. PARKER:

Q. Has your association any profits? A. No, not as such.

Q. But have they any -- "such" or otherwise?



A. They earn a surplus.

Q. They earn a surplus through doing business, then? A. Yes.

THE CHAIRMAN: Out of which they purchase equipment, I take it from page 3 of the brief?

THE WITNESS: Yes.

BY MR. PARKER:

Q. Whose money do you use to purchase these seeds?

A. The growers' money, the members' money.

Q. Have you any share capital? A. Yes.

Q. How much? A. It was mentioned in the brief -- 351 shares non-interest bearing, \$10 value, issued to 351 members.

Q. You have set aside certain reserves? A. Only the statutory reserves.

Q. I understand that. How do you regard that reserve? Is it the cooperative's money or the members' money?

A. That is at present in the name of the cooperative, but actually it is the members' money also.

Q. I do not follow you. A. It can be distributed to members but has not been so far.

Q. Do you consider that any member has a right to come to the cooperative at any time and say, "I want my share of the reserves" or "I want my account credited with my proper share of the reserves"? A. Of the statutory reserve?

Q. Yes? A. A member might do such a thing, yes. We have not foreseen that it would be done, but a member could.

Q. He could justly do that -- it would be within his rights? A. Not without the directors' consent.





THE CHAIRMAN: Would you comply with his demand?

THE WITNESS: The directors would consider his problem.

BY MR. PARKER:

Q. And if the directors, for good and sufficient reasons, felt that instead of crediting it back to the members they should use it for purchasing seed or setting up an office, the directors would have the authority to spend it for such a purpose? A. Yes.

Q. And having done that, it would be too late for the member to get it, would it not? A. Not necessarily, if there were still assets.

Q. Who would have the assets? A. The cooperative.

Q. They would be owned by the cooperative?

A. Yes. The members as a body may ask that a certain procedure be followed and that statutory reserve issued to them at any time.

Q. In your brief you have used an expression -- intentionally or unintentionally -- to which I wish to call your attention. I am referring to the bottom of page 2 of the brief: "The Association contracts at basic figures with its members and a percentage of non-members to grow the seeds required in each crop year." Are the contracts all the same? Have you a standard form of contract?

A. Yes.

Q. Have you one with you? A. No.

Q. Could you furnish the Registrar with one?

A. Yes. We will do that.

Q. Has that been uniform ever since you have been in business? A. No. There have been minor changes.

Q. They are substantially the same? A. Yes, substantially the same.

The Commission took recess at 12.35 p.m. until  
2 p. m.

.....



The commission resumed at 2 p. m.

F. O. BLAKE (examination continued)

BY MR. PARKER:

Q. Mr. Blake, I want to direct one or two questions to you, bearing in mind that the order in council under which this inquiry is directed to be held refers to the present position of cooperatives and their business methods and operations, among other things. Bearing that in mind, I wish to direct one or two questions to the methods of operation, of which I am assuming yours is only typical -- not that we want particular information about yours. To review the matter slightly, your association -- meaning the seed association -- is of only a few years' growth? A. Yes.

Q. And in that sense, I suppose, it is not typical of other cooperative associations which have been operating for a much longer period? That would be true, I suppose? A. Yes; I should think so.

Q. How long has yours been associated with what we would call the cooperative movement? A. Four or five years.

Q. Prior to that, what business were you engaged in? A. I was owner of the Sunset Seed Company Limited.

Q. One of the units which became a member of the association? This particular seed association was incorporated under the provisions of the British Columbia Co-operative Associations Act of 1936? A. Yes.

Q. And you adopted the rules prescribed by that Act, with certain modifications? A. Yes.

Q. And it has a share capital to a very small extent which you mentioned this morning? A. Yes.



Q. Its working capital is obtained, as I understand, by holding back certain deductions out of the gross proceeds of commodities sold through the association? Is that correct? A. Yes.

Q. And after deducting the ordinary necessary expenses of carrying on business, and after deducting also certain statutory reserves, what did you do with the rest?

A. The rest is, at the discretion of the directors, divided pro rata among the membership and is credited to the members' reserve account. In our particular case, perhaps ours is an unusual cooperative to some extent.

Q. Dealing with that reserve for the moment, what amount of reserve do you set aside, or have you been setting aside in the last two or three years? A. Referring to the statutory reserve or the members' reserve?

Q. The so-called statutory reserve? A. The Act calls for the setting aside of 15 or 30 per cent of your share capital annually.

Q. The Act? A. The cooperative Act demands that be done.

THE CHAIRMAN: Is that until it reaches that amount? It is not that every year; it is so much a year until it reaches that amount?

THE WITNESS: Yes.

BY MR. PARKER:

Q. But how much in fact did you set aside last year, do you know? A. Offhand I could not tell you.

Q. Have you a copy of the balance sheet? A. Yes.

Q. Will you look it up? A. The sum of \$684.

Q. How was that arrived at? A. By following the procedure outlined in the Act.

Q. What was that procedure? A. I think it was





15 per cent of the share capital. Is that correct?

Q. I would refer you to section 13 of the Act, which reads: "The profits from the business of an association shall be apportioned as follows:- (a) By setting aside such sum as its rules shall provide, not being less than ten per centum of the net profits of each year as a reserve fund until that fund is equal to the following percentages of the share capital paid up at the date of the apportionment, namely:-" I need not go further. It is not less than 10 per cent. A. Yes.

Q. And that amount, of course, is according to the rules? A. Yes.

Q. Have you the rules in front of you? A. Yes.

Q. Will you turn to the rule dealing with that matter? I think you will find it at page 14, beginning at the bottom of page 13: "The directors in each year, from the proceeds derived from the sale of seeds" -- you will notice that is not quite the same language as the statute. The rule refers to proceeds derived from the sale of seeds. I have not had a chance to read the contracts. I shall read them later. Is there a stipulation in these contracts providing for the payment to the grower of a certain amount? A. You will find it allows for a further payment to the grower, but the contract does not stipulate how much it shall be.

Q. It is an undetermined amount? A. Depending on the year.

Q. To be fixed by whom? A. By the directors.

Q. Will you turn now over the page. There it is stated: "It shall take the expenses of the Association and before recommending any distribution among the members



from the balance thereof, shall set aside (a) such sum as is required by the Act to be set aside, to be known as a reserve fund." It also states that it is not less than ten per cent. The rules are in conformity with the Act, I believe. With that as a foundation, \$684 does not appear to me to be anything like ten per cent of the proceeds. A. It is more than ten per cent of the shares?

Q. I am not talking about the shares. As I read it, the amount of reserve is not related to the shares.

A. Read it again.

Q. It states that the proceeds from the business of an association shall be apportioned as follows: By setting aside such sum as its rules shall provide, not being less than 10 per cent of the net profits of each year as a reserve fund. I do not understand that to relate in any way to the amount of share capital, do you? A. No.

Q. Then when I connect that with the rules they provide that you shall set aside, in sub-clause (a) on page 14, such sum as is required by the Act to be set aside to be known as a reserve fund. How did you arrive at the sum of \$684? I suggest it is much less than 10 per cent.

A. We may have been in error. We took that to be share capital.

Q. Will you tell me on what basis you arrive at \$684? A. It is on the issued share capital.

Q. What is your issued share capital? A. That was the Directors' decision.

Q. But what was the issued share capital? A. At that time?

Q. At the time this statement was prepared. Issued and fully paid up, 228 shares at \$10.00 each, would be \$2,280.00. If \$684 was set aside and you relate it to



the paid up capital it would be 30 per cent. A. Evidently it is 30 per cent.

Q. Can you explain on what basis the reserve fund was set aside? A. Our directors felt that this was our statutory duty.

Q. Has that been typical of your method of operation that the directors would -- how shall I put it? -- do what they thought was proper, or was there an attempt to comply with the Act? A. They were attempting to comply with the Act.

Q. Do you agree with me that it was rather a poor attempt to comply with the Act? A. Unless the Act states anything further.

Q. If there is anything more in it I shall be glad to put it before the Commission. Perhaps there is an explanation.

MR. FRANCIS: I hesitate to interrupt my learned friend, but the attempt to comply with the Act has been very successful. Perhaps he will read the rest of the section; "The profits from the business of an Association shall be apportioned as follows: By setting aside such sums as the rules shall provide, not being less than 10 per cent, as a reserve fund, until that fund is equal to the following percentages of share capital paid-up after the date of apportionment, namely, where the paid-up capital is twenty-five per cent or less." Taking \$2,280.00, 30 per cent is \$684. I submit that there has been full compliance with the provisions of the Act.

THE CHAIRMAN: That brings out that point.

BY MR. PARKER:

Q. Is this the first annual statement? A. Yes.

Q. Nothing had ever been set aside before?





A. No.

Q. Do you still understand by the Act that you could set aside all that in one year?

MR. FRANCIS: Not less; it may be more than 10 per cent.

BY MR. PARKER:

Q. That is how the amount was arrived at? A. Yes.

Q. The next year, I assume, you will set aside nothing for the reserve fund if the capital remains the same. A. Unless the share capital is increased --

THE CHAIRMAN: None of this amount was paid to any of the members.

THE WITNESS: No. The Directors may deal with that this year, and it has been suggested that even though it is a reserve fund there might be a portion in regard to which we should like to have an official opinion as to what may be done with that money.

THE CHAIRMAN: The Directors may do it but they are not bound to.

THE WITNESS: No.

BY MR. PARKER:

Q. Is there any provision in the contract --- I have not had time to examine it -- relating to the question as to how the reserve fund shall be handled? A. There may be a further sum above the contract not having to do with this fund.

Q. Perhaps you will clarify this? Coming back to the Act which reads: "By setting aside such sum as its rules shall provide, not being less than ten per cent of the net proceeds of the year." How much were your net profits according to this annual statement? A. It is a



surplus.

Q. I am not asking about a surplus; I am asking what the net profits were. A. We described them as a surplus.

Q. Describe what as a surplus? A. The earnings of the Company.

Q. But I was not talking about that.

THE CHAIRMAN: It is the same thing, but you call it "a surplus" and Mr. Parker calls it "profits."

MR. PARKER: I am not so sure that that is so.

THE CHAIRMAN: What you refer to as "profits" he terms "surplus".

BY MR. PARKER:

Q. That is how you interpret the Act -- you regard it as a surplus. A. I interpret our earnings as a surplus.

Q. The Act speaks of profits and you consider that the same thing as surplus. A. In the terminology of the Act, yes.

Q. So that so far as the Act is concerned you disregard the word profits and take 30 per cent of what you call a surplus? A. Yes.

Q. That is how you operated. A. We did not disregard it, but we have to adjust it to our situation.

Q. What do you mean? A. We have a surplus and we presume that is the intention of the Act.

Q. You presume that "profits" as used in the Act is what you call "surplus". A. Yes.

Q. And you act accordingly? A. Yes.

THE CHAIRMAN: It would be heresy for Mr. Blake to speak of profits.

BY MR. PARKER:

Q. I am wondering why you did not go to the Legislature and get the Act changed so as to conform to



your operations. At any rate that is the story of reserves, how you calculate them and the basis on which you calculate them? A. Yes.

Q. And having set that amount aside, has any action been taken by your Directors to distribute these reserves? A. No.

Q. Have the Directors a fixed policy under consideration, or has any decision been made as to what shall be done with these reserves? A. Only that they are there for an emergency.

Q. But they have never given consideration to the spending of these reserves up to that date? A. Not on any project. They are there to provide against losses.

Q. Something may come along any day, but that time has not yet arrived. You propose to deal with it then when it does. A. That is right.

Q. Have you considered at any time paying any portion back to the members? A. If the Act allowed we would apportion them to the members' credit.

Q. But have you yet apportioned any of them to the members' credit? A. No.

Q. They are just waiting for future action. A. I have not the right to speak for the Directors. They may decide the matter.

Q. But so far no action has been taken by the Directors. A. No.

Q. Are you a director? A. No.

Q. You have set aside a reserve fund which is still there intact. Have you paid back to members certain items? A. Apart from what?

Q. Apart from the payment called for under the contract. A. No payments have been made to the members





other than the amounts in the contract, but they have been placed to their credit in the members' reserve account individually.

Q. The money has not actually been paid over but credited to their account? A. Yes.

Q. And is that kept separate from the other reserve fund? A. From the statutory reserve fund. It is not in a separate account in the Bank.

Q. But in a separate ledger? A. Yes.

THE CHAIRMAN: How do you regard that sum?

THE WITNESS: That sum represents a further payment to the growers after the expenses of the Association have been met, but there also is this provision that if in any year there is a loss that loss can be apportioned to their accounts in the same way.

THE CHAIRMAN: Is not that a large sum?

THE WITNESS: That is what the concern operates on. We have no capital other than the small sum through membership.

THE CHAIRMAN: That is your capital?

THE WITNESS: Yes.

BY MR. PARKER:

Q. By "your capital" what do you mean? A. The Association's.

Q. Are you sure you are right on that? A. It is a revolving capital, if you can use such a term.

Q. I am asking merely whose it is. The Chairman asked whether you considered it as your capital? I am asking what you mean by the word "your"? Do you mean the Association or the members? A. The Association, which is an Association of growers.



Q. I understand what the Association is. Whose capital is this? Is it the Association's or is it not? Can you tell me? A. The Association's capital I would say.

Q. Then if it is the Association's capital the Association can do with it as it chooses according to instructions received from the Directors. The Directors can do as they choose with it? A. Yes, but they are subject to discipline by the members.

Q. Certainly, they are subject to being removed from office.

BY MR. ARNASON:

Q. Do you consider this surplus a loan from the members of the Association? A. Yes. I would consider it as a trust fund.

BY MR. PARKER:

Q. Are they the same thing? If you come to me and borrow one hundred dollars, that is your money and you can do as you like with it; but if I give you one hundred dollars in trust to be spent as I tell you, that is slightly different. Don't get confused over this. Mr. Arnason asked you if these amounts that were credited in the reserve fund to the different members were regarded by you as a loan from the members to the association? Do you so consider them? A. I would say I regard them as trust funds.

Q. You replied to Commissioner Arnason that you considered it as a loan and you add, as a tail, that you consider it as a trust fund. A. Perhaps it could scarcely be called a loan unless some note were given for it. The member is given notice that his account is credited with that sum and to the degree that it is still in his account



it would be for practical purposes alone.

Q. Apparently you have \$59,000.00 which in your statement you treat as interest bearing loans. A. Yes, but they were loans that were contracted by BRITISH COLUMBIA SEEDS LIMITED before the Co-operative operated.

Q. They are not loans from members? A. Not from present members. In most cases, in practically all cases, they would continue to be members.

Q. But they are not made as members. A. These loans were contracted to British Columbia Seeds Limited and were taken over by the Co-operative with the concern?

Q. Is it correct to say that the Seed Association owes that amount of money, that \$59,000.00 odd? A. Yes.

Q. It was money loaned that has been used for the Company's business. A. By British Columbia Seeds Limited, and we took over their assets and liabilities.

Q. Your Association assumed that liability. A. Yes.

Q. Some day you expect to pay it? A. Yes.

Q. How do you expect to get the money to pay?

A. From the revolving capital; in other words, loans from present members.

Q. You will borrow it from present members and pay off this loan? A. Actually the money is there to be paid. When we took over the loans we took assets of equal value.

Q. But this loan is still outstanding and has to be paid? A. And is covered by assets. Perhaps I should correct my statement. Actually it is there, covered by assets.

Q. Assets taken over by this Association, which they still own? A. Yes, and which were sufficient to cover these loans.





Q. So that the Association in addition to having share capital, has physical assets represented by this amount. A. Yes.

Q. For which the Association has a corresponding liability? A. Yes.

Q. Is that a fair statement? A. Yes.

Q. And in addition to that you have what, for the moment, we will call loans from members arising out of these credits, in their reserve accounts? A. Yes.

THE CHAIRMAN: Without which you could not carry on?

THE WITNESS: Without which we could not carry on.

BY MR. PARKER:

Q. In your brief, just before lunch, I was directing your attention to two sections. At the bottom of page two there appears this statement: "The Association contracts at basic figures with its members and a percentage of non-members to grow seeds required in each crop year. And on page four, dealing with business with non-members, you say that in 1943-44 approximately 8 per cent of purchases were from non-members. Dealing with the 8 per cent, those were straight purchases made by the Association from non-members? In some cases; in some cases they were contracts.

Q. They were purchases; they were not goods handed over on consignment. They were straight purchases? A. Yes.

Q. That represents 8 per cent of the total purchases. What makes up the other 92 per cent? A. We purchased from members.

Q. Does the Association purchase seeds from its members? A. It contracts with members and receives their seed, and in that sense it purchases their seed.



THE CHAIRMAN: Do you regard that as a purchase from the members?

THE WITNESS: Yes.

BY MR. PARKER:

Q. So that you will not be confused over this, I will read the form of contract, which is a standard form: "It is hereby agreed between blank and blank -- between the Association and individual members of the British Columbia Cooperative Seed Association -- it says "we". That is the grower. Let us say "I". "I agree to plant a sufficient acreage of land to produce under ordinary circumstances the seed hereinafter stated as to variety and quality and the British Columbia Cooperative Seed Association hereby agree to purchase the seed crop in quantities and at prices hereinafter stated, allowing for further deferred payment on terms to be arranged by the Directors." Is that a fair statement of the way you carry on business with the members?

A. I think so.

Q. You buy their crop for an undetermined amount?

A. The contract gives an undetermined amount.

Q. The initial payment is determined, but the balance is an undetermined amount. A. The business is such that it is difficult to sell the product. Ordinarily a man must know what he is going to do before he starts.

Q. "At the prices hereinafter stated," and in the columns you fill in the specific price for certain types.

A. Yes.

Q. "I agree to plant a sufficient acreage of land to produce under ordinary circumstances the seed hereinafter stated as to variety and quality and the British Columbia Cooperative Seed Association does hereby agree to



purchase the seed crop in quantities and at prices herein-after stated, allowing for further deferred payment on terms to be arranged by the Directors, the crops to be properly planted, cultivated and harvested....." That first part of it is the meat; you buy these things from the members and sell them at the best price you can get for them? Is that correct? A. Yes.

Q. And you deduct expenses and the statutory reserve and the balance so far has been credited in the members' reserve account but not paid them? A. Usually our crops are sold synchronously with that contract.

Q. What happens if you sell them too cheaply?  
A. We make a loss.

Q. Is that the whole story? I am only asking these questions because we are instructed to find out the method of operation and I want to establish your method particularly. That method is one of purchase from your members. Is that correct? A. Yes.

BY MR. ARNASON:

Q. You said that you purchased seed from the members? A. Yes.

Q. What I would like to know is whether the reason for that purchase of seed is so as to enable the Directors of the Association to have the assurance of certain stocks of seed on hand when they come to make contracts for sale. Is that one reason? A. That is the prime Reason. No grower would normally sow a crop if this nature, which does not produce seed and which is not of value for any other purpose, unless he has a good assurance that a definite amount of that is to be used.

BY MR. PARKER:

Q. If the Cooperative Association buys seed at a





certain price and sells at an increased price, such increase being sufficient to take care of all handling charges, cost of operation, and sufficient to set aside a statutory reserve and a still further amount, on what ground do you say that that reserve and the further amount are not profits the same as in the case of any other ordinary company doing business? How do you distinguish between them? A. Our grower accepts a basic lower figure to guarantee him cost of operation, or part cost of operation, before he starts, and he is going to wait for the remainder of his price until after the crop is sold.

Q. Let us take an imaginary case. Suppose through some mischance the amount you agreed to pay him and did pay him when he delivered his seed was very much more than you were able to realize when you came to sell, is there any obligation on the grower's part to pay to the Cooperative that deficit? A. Only that jointly the members can be charged. Our men are most vulnerable and our method of purchasing, in the true cooperative spirit, ensures each grower bearing the risks of other growers to a degree as to selling price.

Q. This is a contract between the member and the Company? Is there anything else that indicates that?

A. There is nothing else in writing, except that the member subscribes to the rules of the Association.

Q. But do you consider, or does the Company consider that in the case of loss it has a perfect right to call on the member to contribute his proportionate share of the loss on the same basis as he was entitled to his proportionate share of the surplus? A. Collectively, yes. Actually in practice, we meet the loss on an individual



contract. On one thousand pounds of onion seed there may have been a loss and on one hundred pounds of cauliflower seed there may have been a gain, and as between the various contracts the Association may still have a surplus over selling prices.

Q. Then everybody gets a little bit of the profit?

A. Yes.

THE CHAIRMAN: In other words the average shows a gain?

THE WITNESS: Yes.

BY MR. PARKER:

Q. But suppose an extreme case. As a result of the year's operation, suppose there was a substantial loss. Suppose half of the members' products were sold at a profit and the other half at a loss. The net result would be that the Association as such would have operated at a loss. A. Yes.

Q. Does the Association get it back from the members? A. It would charge that against the members' reserve.

Q. Against all those whose product had been sold at a profit, as well as those whose product had been sold at a loss. A. Yes.

Q. In other words, each would contribute to the loss. A. Yes. It reduces the loans from the members.

Q. I am not sure whether it was you or the other witness who referred to Section 4 (p) of the Income War Tax Act. You are familiar with that provision? Let me read it: "The Income of farmers', dairymen's, livestockmen's, fruit growers', poultrymen's, fishermen's and other like cooperative companies and associations, whether with or without share capital, organized and operated on a cooperative basis, which organizations

(a) market the products of the members....



(b) purchase supplies and equipment for the use of such members under an obligation" -- I am calling attention to the fact that it is under an obligation -- "to turn such supplies and equipment over to them at cost ....." The same phrase occurs in (a) "under an obligation to pay to them the proceeds from the sales on the basis of quantity and quality, less necessary expenses and reserves." You are familiar with these two sections? A. I was not familiar personally with these sections.

Q. This is the so-called "exemption section" 4(p). In this particular case is there any obligation on the part of the Company to pay to the members the surplus that you have credited to their reserve account? A. I think Rule 60 leaves it in the hands of the Directors as to when it shall be done.

Q. It is purely discretionary in the hands of the directors whether they shall pay? A. That provision is only made to cover the possibility that at the end of the five year period, which is the normal period of time it may be necessary.

Q. Point out to me, whether it be in the Act or in the rules or in your contract or anywhere else, where you will find an obligation imposed on the Society to return this money to the members, as distinct from a mere discretion resting with the directors to pay it if they see fit. Do you see my point? A. Yes.

Q. Will you explain to the Commissioners wherein the obligation is to be found?

THE CHAIRMAN: Have you anything else, apart from the rules, any document that imposes that obligation?

THE WITNESS: No.





BY MR. PARKER:

Q. When we read the Act and read that form of contract we have it all? A. Yes.

Q. In your statement, Mr. Blake, you have set aside a contingent liability of \$12,000.00? A. Yes.

Q. It is referred to in your auditor's report?  
A. Yes.

Q. But it does not appear in the statement. If there is a contingent liability there why does it not appear in the statement? A. Because it is only a claim. We contested it and since it has been arbitrated there is \$200.00 allowed to the payment, that is all.

Q. The claim was asserted for \$12,000.00? A. Yes.

Q. By whom? I do not want the individual name, but what type of concern? A. By the buyer of the seed claiming from the Association. It was arbitrated by the seed trade.

Q. When this statement was prepared that was still active as a claim? A. Our auditors claim that it should appear in the statement.

Q. And the basis of crediting this reserve to the members is on the quantity of the seed and the grade? A. Yes. It varies with the amounts paid to them for their seed delivered.

THE CHAIRMAN: What becomes of the share of the member on death or retirement?

THE WITNESS: It may be returned to him.

THE CHAIRMAN: May be?

THE WITNESS: If a member wishes at any time to cease being a member he may apply and it is returned.

THE CHAIRMAN: Have there been any instances in which it was returned?



THE WITNESS: Yes. We have already returned several this year.

MR. ELLIOTT: In the case of such a member retiring, is he given any part of the surplus, any part of the reserve, or is he given only his share?

THE WITNESS: That remains to his credit to mature in due time.

THE CHAIRMAN: Normally at the end of five years?

THE WITNESS: Yes.

BY MR. PARKER:

Q. Take these physical assets bought and paid for. Does he have a share of that on retirement? A. If the concern is liquidated I presume he would.

Q. But he cannot demand something equivalent to his share in the assets? A. When his reserve fund matures there should be cash to pay.

Q. I am not talking about the reserve fund but about the assets that you took over from your predecessor. A. Those are distinct loans as apart from the amount to the members' credit.

Q. That belongs purely to the Association. Does the fact that you took over the liabilities, with corresponding assets, assist you in carrying on business? A. Yes, because those assets are equipment and stock-in-trade that we took over.

Q. Without them you could not get started and it still continues as a great benefit to the Company -- well, a substantial benefit anyway. A. Yes.

BY MR. NADEAU:

Q. Does your Association own any subsidiary?

A. If you describe as a subsidiary British Columbia Seeds



Limited -- a joint stock company was taken over.

Q. By your Association? A. Yes.

Q. When? A. In 1942 or 1943.

THE CHAIRMAN: It does not operate individually?

THE WITNESS: We still use that name to sell our seeds.

THE CHAIRMAN: What becomes of the surplus of that corporation?

THE WITNESS: It has no surplus; it is owned by the cooperative. We should have discontinued it but we wished to wait a year or two before dropping that name. People had become so used to dealing with British Columbia Seeds Limited that we thought it best to retain the name.

THE CHAIRMAN: It is only the name you retained; the business is done by the present corporation?

THE WITNESS: Yes.

BY MR. NADEAU:

Q. Are there any other companies or associations owned or controlled by your association? A. No. We have loaned to one other association, but that is entirely in the nature of a loan.

Q. Another question about the shares. Are all your issued shares entirely paid up? A. At the moment some growers, who are new growers, and are contracting with us, have asked for the ten-dollar value of their shares to be deducted from this current crop. At the moment practically all these are collected but it is the tail end of the season and there may be one or two outstanding.

Q. Has your association, since it started operations, taken over smaller organizations? A. Only the one mentioned.





BY MR. ARNISON:

Q. I notice in your brief you refer to business done with non-members and you state that to date no allocation of surplus has been made to such members. Can you give any information as to what are the intentions of the board of directors in that regard? Do they intend to distribute any of the surplus to non-members? A. As far as I know they do not intend to do so.

THE CHAIRMAN: Small as it may be, whatever surplus you gain from non-members is a profit, then?

THE WITNESS: It could be considered as such.

THE CHAIRMAN: You might concede that to be a profit?

THE WITNESS: Yes.

BY MR. ARNISON:

Q. On page 5, section 9, you refer to the results. Can you give information as to what effect on the price level has resulted from the operations of the association? A. The general price level?

Q. Returns to growers? A. We believe it has improved their returns considerably. Since most of the business has been handled by the cooperative and since this is almost the only seed-growing section of Canada it would be difficult for me to say fairly what other concerns might have done. They might have done better than we have. I don't think they would, but it would not be fair for me to say they would not have done so.

BY MR. ELLIOTT:

Q. How does the association decide what the initial basic price per pound shall be? A. As a general rule we take approximately 20 per cent of our average expected sale price, and a good deal of the sale price



is already known before the contracts are made, and we decide that that shall be withheld; but in some cases we adjust them a little. For instance, we pay freight from the grower's shipping point; and with low-price crops of 9 cents per pound or so and freight of 1 cent, obviously 10 per cent is taken up by freight; whereas with high-price seed, \$12 a pound, where the freight is relatively unimportant, it is comparatively nothing. Some crops become more of a risk to contract than others. Some crops are, one might say, tempermental. In one case the return may be fivefold, and other seeds may return ten thousandfold.

Q. In the apportioning of the expected selling price that you pay initially to the grower your decision is based on considerations of risk -- probably about as much as you think is safe? Is that it? A. As nearly as one can humanly evaluate it.

Q. Presumably, looking at it from the point of view of your association, you would prefer to pay him a somewhat smaller sum initially and make it up later, rather than pay him too much and find yourself subsequently with a deficit instead of a surplus? A. The directors at present are considering pooling all surpluses and each member holding his own surplus to stand on its own merits. Personally as a business man I am not too keen on it but the directors feel that that is the soundest method.

BY MR. NADEAU:

Q. Does your association manufacture any supplies for their members? A. No. We do buy some materials for members, though not in any large quantity. We have bought cleaning machines for them, insecticides, and other articles.



BY MR. PARKER:

Q. Does your company supply the members with any fertilizer or anything like that? A. Not fertilizers. We have done something in regard to seed treatment -- materials for their seed -- which is entirely involved in getting the seed safely in the ground.

Q. But it is stuff they are charged for? A. It is supplied at cost.

Q. Apart from that, you do not market and sell equipment? A. With the exception of doing some business in town for the growers as their agent.

Q. But as regards the supplies you buy, it is negligible? A. Yes.

MR. TUPPER: If it please the Commission, I should like to ask the witness one or two questions.

THE CHAIRMAN: Very well, Mr. Tupper.

BY MR. TUPPER:

Q. Mr. Blake, you told Mr. Parker that you estimated that your association was doing between 60 and 80 per cent of the seed business in British Columbia? A. The vegetable seed business only. We are only dealing with vegetable seeds.

Q. What was the volume of business you did last year? A. The statement shows that the gross sales were \$608,000.

Q. I will run over a few names that no doubt are familiar to you and ask you to qualify the estimate. Do you know Mr. Newtry of Vernon? A. Yes.

Q. He sells a great deal of onion seed and is described as the largest such grower in the Empire? A. He is in Canada at any rate.

Q. You don't grow sugar beet seed? A. No.





That is not a vegetable seed; that is definitely a field root seed.

Q. I suggest that the combined business of Buckerfields Limited, of Brackman-Ker and Mr. Newtry alone would exceed your sales. Would you deny that? A. Are you referring to seeds grown by these companies?

Q. The business done in seeds? A. These are seeds purchased from elsewhere in this country. They might have purchased some from us.

Q. I mean the actual volume of seeds. You purchase your seeds from your numerous members? A. We are wholesalers only. We don't do a retail business and I am referring to the wholesale business.

Q. Would you positively deny that the combined wholesale business of these companies exceeds yours? A. I would not dare to deny it without being certain of their figures, but I can safely say, as regards Buckerfields and Brackman-Ker, that our sales of seeds grown in British Columbia, wholesale, would exceed theirs probably by about four to one.

Q. What do you say about British Columbia peas? A. I don't know what proportion would be boiling peas and what proportion garden peas. Boiling peas are essentially grain; they are used for making soup.

Q. You raise \$608,000 worth of vegetable seeds, which does not include sugar beet, and some kind of peas--that is, boiling peas? A. There are garden peas and soup peas and boiling peas, classed as commercial peas. In clover and alfalfa they do a large business in this province which we don't touch.

Q. Then you would narrow your statement to this



extent that, in respect of vegetable seeds properly so-called, not including sugar beet, you do from 60 to 80 per cent of the British Columbia business? A. That is growers' business, not referring to what people buy from other places, and sell.

Q. Can you confirm the assertion that the sugar beet crop alone is worth \$120,000 as grown in British Columbia? A. As far as I am aware, it is approximately 300,000 pounds valued at 15 cents a pound.

Q. I have 300 tons worth \$120,000. A. Is that actual production?

Q. I will call evidence on that. A. These figures could be obtained in this building from the Department of Agriculture.

Q. I am talking of all seeds. A. We deal only in vegetable.

Q. I gather from what you said that the Sunset Seed Company Limited was one of your associate members? A. Not of the cooperative association.

Q. Never has been? A. No. It is my personal affair.

Q. I hesitate to embark upon the question of loans, but may I ask one or two questions? Do you borrow money from the banks? A. Yes.

Q. And have done so extensively? A. Not extensively as compared with our turnover. We do borrow for a short period to allow growers to get paid within thirty days. I personally kept them waiting but the directors instructed me to see that they were paid.

Q. When the loan matures you pay it off with a cheque drawn on your bank account? A. I presume that is



so. There may be a bank entry.

Q. And that bank account is made up largely of so-called members' reserve? A. Yes.

Q. Suppose you had two or three unfortunate years and had not enough money in your bank account to meet the bank loan, what would you do? Suppose you had other assets but no money in the bank? A. We might sell some of our assets.

Q. In other words, you would sell all the assets and continue to pay the creditor bank until you had exhausted all your resources? A. It could be done, of course; or the members might wish to loan money to the concern.

Q. That is hardly what you would do with property or money you held in trust, is it? A. With the exception that the growers have agreed to that in becoming members and in agreeing to abide by the rules.

Q. You said in your evidence that these moneys were credited to your reserve account which would normally be repaid in five years? A. Yes.

Q. You are only two years old? A. Yes.

Q. How did you estimate the five years? A. We estimated that would be a normal period of time in which we would be able to repay, as far as we could see. We had three previous years of British Columbia Seeds Limited to guide us, and we were learning from the experience of other cooperatives, which might not apply to us.

Q. Until your directors feel that you have ample working capital, you do not expect to make a distribution?

A. Not until the close of the five years.

Q. You feel that would probably be five years?

A. Yes.





Q. And in the meantime the members have no rights to the return of the money until the directors so determine?

A. No.

BY MR. THORVALDSON:

Q. I want to ask you a question or two about the original company. That was incorporated in 1940? A. Yes.

Q. Under the Joint Stock Companies Act? A. Yes.

Q. Were you the manager of that company at that time? A. Yes.

Q. So you have been with the organization from the start? A. Yes.

Q. And in 1942 there was a change to a cooperative organization? A. Yes.

Q. Are the directors of the present cooperative the same as the directors of the original company? A. No.

Q. Are any of the same directors there now? A. No; I don't think so. They were until recently, but at the present time there are no directors who were directors at the inception.

Q. How many shareholders did the original company have? A. Only five shareholders.

Q. In connection with the cooperative association, I suppose your customers, that is your producers, are fairly well the same now as were the producers of the original company? Is that so? A. Having 351, there are a lot of new ones. There have been one or two deaths, and one or two growers have ceased to grow seeds or have moved away. Otherwise, generally, they are the same body of men.

Q. In 1942, when this change-over was made to a cooperative association, was there some discussion among the directors as to doing so -- the reasons for the change?



A. The change was brought about by the British Columbia Seed Growers Association for whom the controlling interest of British Columbia Seeds Limited was held in trust.

British Columbia Seeds Limited have three shareholders who hold shares in trust for British Columbia Cooperative Seed Association, which is a body under the Societies Act.

Q. But there obviously had been some discussion among the directors. There must have been some reason for the change-over? A. Yes.

Q. What was the main reason? A. The main reasons are set out in my brief, one of which was to ensure greater control of the enterprise.

Q. Did the tax question enter at all into the reasons for the change? A. No.

Q. Was the question of taxation discussed at the time the change-over was made? A. Only to this extent, that British Columbia Seeds Limited paid out its entire earnings to its growers who were members of British Columbia Cooperative Seed Association, which is or should be largely an educational organization; but the earnings were paid out or returned to the growers and they gave British Columbia Seeds Limited a note, or British Columbia Seeds Limited gave them a note covering the amount. That was considered not a sound basis of operation. It is very difficult to run a cooperative when the members are unable to meet together and voice an opinion, and it was suggested that it would be less cumbersome to operate as a joint stock company. But that was found to be not sound. As in many other democratic undertakings, the democratic way is cumbersome, but finally it is found to be sound, and in the case of the cooperative we concluded that the cumbersome method was the soundest even though it brought many



difficulties.

Q. Under the joint stock company system did you have any profit? A. There was no profit.

Q. It was all paid out? A. Yes.

Q. Under your old system of paying everything to the grower you did not pay income tax? A. No.

Q. Were you required to file income tax returns?  
A. Yes.

Q. The old company was? A. Yes.

Q. Is the new company required to file returns?  
A. Yes.

Q. Does the cooperative file returns? A. Yes.

Q. Annually? A. Yes.

Q. Do you show profits? A. No.

MR. PARKER: Is my learned friend justified in asking questions about the details?

MR. FRANCIS: We take the position that we have nothing to hide, but this is being carried far afield.

BY MR. THORVALDSON:

Q. Was any particular change made in your business methods, since you started to do business as a cooperative, compared to what they were before? A. Only that we ceased to give the grower the actual payment. He became a member and the further amount was put to his credit in his own account.

Q. Was there any particular change in your method of operation, such as the method of purchasing seeds and so on? A. No.

Q. That was the same? A. Essentially the same. There may have been minor differences.

Q. Was there any particular change in the method





of bookkeeping? A. As it would involve members' accounts only.

Q. Only so far as it involved members' accounts. Your methods of operating in a business way as to sales, under the cooperative procedure, were exactly identical with the previous method as a joint stock company? A. With the basic exception that now the money which is still due goes into the members' reserve account, which makes a considerable difference.

Q. But I was referring to the commercial operations-- the method of dealing with the customers. A. They are essentially the same.

Q. Was there any change in the purchasing contract, the one which has been filed as an exhibit? A. Only such as would clearly result after experience had suggested an adjustment, and this definitely provides for a further payment to the grower.

Q. Actually, was there any change in the wording of your contract, or is the wording of the present contract identical with the one you used in 1941? A. With the exception that we have now -- well, I am not sure whether it was during B. C. Seed's time that the contract was changed to its present status.

Q. Do you recall in what particular it was changed? A. The change I mention allows a further price to be paid to the grower.

Q. But under each system, prior to the change, you made an outright purchase from the grower? A. The initial purchase, yes, or the initial payment.

Q. In each case, both under the joint stock system and under your cooperative, you purchased your product



outright from the grower? A. Bearing in mind that we were a non-profit joint stock company.

Q. Answer the question. In both cases you made an outright purchase from the grower? A. We made an initial payment.

Q. When did you make the initial purchase? A. In our contract with the grower; that is his first basic price which gives him courage to risk and to go ahead and plant his crop knowing that he will not be left entirely unprotected when he is finished.

Q. The contract says you do make a purchase. That is right there. A. Yes.

Q. Your old contract said the same thing. A. Yes.

Q. So that in that respect the contract is the same? A. Yes.

BY MR. FRANCIS:

Q. My learned friend, Mr. Thorvaldson, has indicated that there was very little difference between the old company and the new company. That is correct -- that the method of bookkeeping is much the same? A. Yes.

Q. Is it a fact that the fundamental difference between the old company and the new company is that the new company is controlled by the growers in the interests of the growers? A. Yes, and so was the old company; but in the case of the old company there was the added danger that it might not continue to be so because it was not based on the cooperative principle of one share one vote.

Q. The difference between the new company and the old company, or one important difference, is that the control of the new company is assured to all growers? A. Assured more in perpetuity than the other.



MR. PARKER: I tender this document in evidence.

THE CHAIRMAN: Does this dispose of the case?

MR. PARKER: Yes, Mr. Chairman.

THE CHAIRMAN: What is the next?

MR. FRANCIS: The next case is a submission on behalf of Massett Co-operative Association. The brief will be presented on behalf of the association by Mrs. S. L. Simpson, of Queen Charlotte Island, the Vice-President.

MRS. S. L. SIMPSON,  
Vice-President,  
Masset Co-operative Association,  
having been duly sworn testified  
as follows:

BY MR. FRANCIS:

Q. Mrs. Simpson, you are Vice-President of Massett Cooperative Association? A. Yes.

Q. Will you please proceed to read your brief.

(Mrs. Simpson submitted the brief as follows:)

"Brief submitted by Massett Co-operative  
Association to The Royal Commission on  
Co-operatives

"The Massett Co-operative Association is not large, but has some unusual features which cannot be explained in terms of its balance sheet alone. To understand the structure and function of our organization it is necessary to give briefly an idea of its background.

"The Village of Massett is situated on Graham Island, the largest island of the Queen Charlotte Island group. It is about one hundred miles from Prince Rupert, five hundred miles from Vancouver and forty miles from the closest islands of Alaska.

"The major industry of the area is fishing, with some farming and logging.

"Nearly all the people who live in the area are





concentrated in the two villages of Old and New Massett. These villages are three miles apart in point of space, but poles apart in other ways. New Massett is a composite group of white settlers of English, Dutch and Scandinavian origin. Old Massett is on an Indian reserve and the inhabitants are all Haida Indians, not many years removed from the tribal state.

"Before the first World War a considerable number of settlers came into the district on the wave of a land boom which subsided quickly when it was found that the land was not suitable for farming, and the markets nonexistent. The settlers who remained numbered two or three hundred and the population remained at that level. In spite of the fact that the Island has always produced a considerable wealth of fish and timber, most of it goes past the front door of the villagers, in fish packers taking the fish to canneries and cold storages on the mainland and in log barges carrying the logs to pulp and sawmills in the south.

"There was a combined fish and clam cannery at Massett which was for many years the mainstay of the two villages. In the 1930's this cannery got into financial difficulties and finally closed and the opportunities for livelihood narrowed more than ever. This threw many of the families onto relief, not only in New Massett, but also in Old Massett, where relief was merely a miserable pittance, not sufficient to supply adequate nourishment to fight disease, prevalent in our native villages.

"The two villages have no electric lights, no water system, practically no medical or dental service. Their only connection with the outside world is by a



bi-monthly steamer from Prince Rupert. For many years we hoped that some concern would come into the place, start some new industry which would provide employment and produce prosperity, and thus bring in some of the amenities of city life and provide a more reliable livelihood for the villagers. This did not happen. It became apparent that we were thrown on our own resources and that if we wanted to enjoy a better life we would have to find the way ourselves. Our co-operative grew out of this need.

"The Association was incorporated under the Co-operative Associations Act of British Columbia in March, 1942. It was formed by the people of the two villages of Old and New Massett for the primary purpose of co-operative ownership and operation of the razor-clam beaches of the Queen Charlotte Islands. Out of a total population in the two villages of Old and New Massett of about 700 people which includes women and children, there are 300 paid up members of the Co-operative. About 90% of the adult working population hold shares in the Co-operative and participate in some phase of its activities. The only restriction on membership is that the member must live in one of the two communities. Every occupation possible in a coast settlement is represented among the members: there are fishermen, clamdiggers, cannery workers, truck drivers, storekeepers, the local wireless operators, the minister, the magistrate, the district nurse. All these work either directly within the co-operative or they belong to it because they believe it is the means of improving the economic welfare of the community. As is often found along the coast this cross section is of a half dozen nationalities, of every political creed and



religious belief and in addition are divided into two racial groups.

"The bond which brought these many elements together was the growing realization that in a depressed area such as ours the best way to improve conditions was by mutual self help.

"At the outset we realized that our primary need was increased income and this could only be attained by utilization of whatever resources were at hand. The lease rights to the clam beaches were still owned by the canning company. An agreement to purchase these rights was reached at a price of \$22,000.00 and after much scratching around among the whites and natives, we raised in share capital \$5,000.00, enough to make the initial payment required. The old cannery equipment was repaired, all the labour necessary was provided locally, and in 1942 we produced our first pack of clams.

"It became evident at once that if the Co-operative could successfully revive one field of employment it could do the same in others. In 1943, and again in 1944, salmon as well as clams were packed in the co-operative cannery. This has not been easy by any means. In the three years of operation we have had many vicissitudes. In two years there was a small surplus and in one year a loss. Nevertheless the co-operative has paid out in wages to its members since inception \$150,000.00, thereby raising the standard of living of all persons in the villages appreciably; and, most important, has given birth to a new feeling of confidence in the future.

"Our method of operation is as follows:

"Distribution of earnings. The surplus from our operations is allocated each year to the members as a





percentage on their wage earnings. Before such allocation is made, however, the required legal reserve of 10% of earnings is set aside, together with a 5% reserve for depletion of the clam beaches. If a loss is experienced then the members must take this out of their wages. At the general meeting each year the members decide if the surplus is to be paid in cash or if it is to be allocated to members but left in the co-operative as share capital. As the co-operative has heavy obligations the latter course has always been followed and probably will continue until the co-operative is on a sound financial footing.

"Share Capital. Our share capital is dangerously low compared with volume of business done and total capital required to handle this business. Accordingly we are building up share capital, not only by direct purchase of shares by the members, but also by contributing our allocated dividends to share capital, as above, and in addition the membership has agreed that until our loan from the outside co-operatives is paid off we will contribute 10% of all our wage earnings also to share capital. We do not pay interest on share capital. In 1943 total share capital was \$4,776.99. To assist in financing all members leave 23% of their wages in a fund which is distributed at the end of each year.

"Loans. Our financing is done mostly through loans from members, loans from other co-operatives, and occasional loans from the bank on the pack as required for operation.

"Loans from members in 1943 totalled \$2,710.65. Most of our members being natives and in a low income group, it is not possible to borrow largely from them.



In 1944 we obtained a loan of \$11,600.00 through the Co-operative Wholesale Society of British Columbia.

"Non-membership business. In the case of the cannery co-operative there is no question of this as all workers are members. In the case of the store co-operative we have lately embarked on, we have not yet completed a full year's business and cannot say what proportion of non-membership business there will be. It may be worth pointing out that in a self-contained country community like ours where nearly all the population belongs to the store co-operative, the non-membership business will be of little importance.

"Our procedure with regard to Reserves and Bad Debts. As described we set aside from the surplus a Legal Reserve and a Depletion Reserve. Bad debts are negligible in our business and we do not set up a reserve for this purpose but write off small amounts as a direct operating charge as necessary.

"We do have a definite problem in regard to Deficits on our operation. In 1943 the Deficit amounted to \$3,272.94. This is set up as a Deficit Account on our books, and reduces the membership equity accordingly.

"Experience with Income Tax. Our only experience in this regard has been in 1942 where we allocated a surplus among the membership and in this case we deducted the dividend tax for the account of the Income Tax, the balance then being credited to the member on share capital. I believe this dividend tax was 7%.

"One of the hardest problems of our Co-operative had to overcome was the antagonism existing between white and native groups. The reasons for this hostility are many



but it is sufficient to say it was very real and at first blighted all hope of a central co-operative. There were friendly elements on both sides, however, and it is a tribute to their perseverance and proof of the soundness of the co-operative principles that the two factions have since learned to work harmoniously together.

"There is no discrimination in the Co-operative between Whites and Natives. One member has one vote regardless of race or shares held. The selection of the Board of eight directors is made in such a way as to ensure that both groups, Natives and Whites, are able to choose an equal number of representatives. The Manager of the business is engaged by the Board.

"This equality throughout the Co-operative has done a great deal for the mental outlook of the Natives. Indians, including those of Massett, feel that they have been treated as members of an inferior race, which is doomed to extinction, and that they have been despised and segregated and deprived of their rightful share in our national life. Our Co-operative has gone right to the heart of the problem and given them their one basic desire, equality.

"Our Co-operative is a producers' organization of a most fundamental type. The resources we use, the clam beaches, are owned in common, the tools of production are owned in common, and every person at work in the cannery or on the beaches is a member of the Co-operative. At our annual meetings we have almost one hundred per cent attendance.

"We use a union wage scale as a gauge for labour costs.

"We have a definite programme for the future. We believe that co-operation is the ideal way of life for a





rural community. By working together many things are made possible which could not be done individually. Therefore we intend to extend the co-operative programme into our economic lives wherever and whenever possible.

"To this end we are developing our main industry, fishing and fish manufacture. In addition to our own cannery we intend to have our own cold storage, sufficient for the needs of local fishermen and farmers. We are planning a co-operative lumber and shingle mill to provide our supplies and much needed winter employment. We intend to install a co-operative lighting plant as soon as war conditions permit.

"As consumers we feel that the co-operative store can ensure savings and provide better service. To that end we established a co-operative store at the Indian village in 1944 and are establishing a similar store in the White village in 1945.

"We feel that our Co-operative has made some definite contributions to the problems facing many a small community in Canada. We have tackled the problem of race relations and solved it in the only way possible. We have used our natural resources in a case where the profits involved were too small for private industry and we have made them into a source of income for all of us. From a state of lethargy, and dependence on either government aid or private companies we are developing a healthier dependence on our own strength and ability to solve our local problems. Our people, through co-operative enterprise, are no longer on relief thus releasing the government of that responsibility. Some of our members have become income tax payers through the benefits of co-operative effort.

"As co-operative enterprise in our community



develops, and projects resulting from the development of our local natural resources increase, government revenue from our area will increase accordingly. Such development is not sufficient to interest private companies, but will tend to round out our yearly income.

"Our aim is to make our community a self-supporting unit that will be a help to the government of our country during the difficult war period and through the still more difficult period that lies ahead.

"Respectfully submitted,

Masset Co-operative Association

(S. L. Simpson, Manager) "

THE CHAIRMAN: Mrs. Simpson, on behalf of the Commission, I wish to compliment you on the excellence of your brief. Perhaps I should add that it is the most human document that we have so far received.

THE WITNESS: Thank you, sir.

BY MR. FRANCIS:

Q. Mr. S. L. Simpson is the manager. He is your husband? A. Yes.

Q. I understand it takes about a month for you to come and attend these sessions? A. Yes. We have a bi-monthly service and unfortunately the meeting was held at such a time that it was unavoidable missing the boat.

Q. It was not possible for Mr. Simpson to be here? A. No. he is very busy.

Q. But as Vice-President you are reasonably familiar with the operations? A. Yes. Unfortunately, I can't present the balance sheet. The books were sent to the auditor at the end of November and he was instructed to send the balance sheet down but so far it has not



arrived in the mail.

Q. Will you give it to the Commission when it does arrive? A. Yes.

THE CHAIRMAN: You could forward it on to your Counsel and he would forward it to the Commission.

THE WITNESS: Yes, Mr. Chairman. Our rules are incorporated with the tide table and at the present time they are in the press.

THE CHAIRMAN: Perhaps you will send that on at the same time?

THE WITNESS: Yes.

MR. PARKER: I do not think I have any questions to ask.

BY MR. LOCKE:

Q. Mrs. Simpson, I want to get some information from you as to the exact way in which this cooperative operates. First, have you a copy of the memorandum of association? A. I have just the one copy.

Q. The rules are in that? A. Yes.

Q. Would you mind if this was put in? A. Not at all.

Q. Then I will put it in as an exhibit. Are the rules in there too? A. Yes. Each year we put out a tide table and incorporate the rules for the members.

(Memorandum of Association, Massett Co-operative Association, filed and marked as EXHIBIT 1.)

Q. Has there been any change since this was printed? A. No; there has been no change.

Q. I refer to the terms of the memorandum of association which are set out at page 9 of Exhibit 1, which states the objects of the association -- "to carry on the business of merchants in all its branches" -- and it particularizes: "to buy, sell, produce, manufacture, can,





pack, preserve and deal in all kinds of fruits, vegetables, provisions, meats, fowl, game and other food products, to buy products in the foregoing, to carry on the business of a storekeeper in all its branches, and in particular to buy, sell, manufacture and deal in goods, stores, consumable articles, chattels and effects of all kinds, both wholesale and retail and to transact an agency business, to make arrangements with persons engaged in any trade, business or profession and others, etc." This is the memorandum which is contemplated by the Cooperative Associations Act and shows it is filed on February 19, 1942. Does the cooperative association own a cannery? Did they buy it or lease it?

A. The cannery is leased from Nelson Brothers for five years, expiring in the fall of 1945, but the equipment is our own.

Q. The equipment belongs to the association? A. Yes.

Q. And the grounds where they dig the clams, they were purchased at a price of \$25,000? A. From the Nootka Packing Company.

Q. By the association? A. Yes.

Q. And how much was paid? A. We have to pay it off each year.

Q. Would you describe how you deal with your members in the purchase of fish? Do you purchase salmon from your members? A. We don't really handle the fish business at all but merely can for the Prince Rupert Fishermen's Cooperative on a cost basis, so much per case, and the same agreement was made with Nelson Brothers this summer for handling a percentage of their pack.

Q. You don't do any fishing at all? A. No.

Q. And in return for so much a case you can salmon for these other organizations? A. Yes.



Q. What about clams? How do you handle those?

A. That is the work of our cooperative. We dig the clams and pack them and they are sold through an agent.

Q. How do you pay for the clams? Do you purchase them from your members? A. They are purchased at four cents a pound from the members. They are picked off the beaches and delivered to the cannery. Each box contains a tag with a number and each digger has a number, and the clams are weighed and the poundage credited to the members.

Q. Do you pay them a down payment? A. There is a payroll and at the end of the month they are paid the sum total of the amount less one third that is held back, that is a hold-back account -- 10 per cent for reserve and 23-1/3 per cent to act as operating costs throughout the period of operation.

Q. I am not clear on the point as to how you deal with your members. Do you give them credit for the clams, so much a pound? A. Yes.

Q. Is that what other cooperatives refer to as an initial or down payment? Is that initial payment four cents, or what is it? A. That is the full price of the clams, four cents a pound.

THE CHAIRMAN: They get nothing more than that?

THE WITNESS: No, four cents a pound. They get two thirds at the end of the month.

BY MR. LOCKE:

Q. The cooperative purchases clams from its members and the arrangement is that they are to be paid four cents a pound, and this amount is credited to them and at the end of the month certain deductions are made and they get the rest? A. One third is deducted.



Q. Is there an agreement in writing between the members and the association? A. I think you will find that in the rules.

Q. Will you look for it? Is it something that is in the rules? Is there a contract? A. It is in the rules of the cooperative.

Q. You can find it quicker than I can. Are you thinking of that rule that says that the members may be required to enter into contract with the association? Is that what you are thinking of? I did not have time to read your rules. A. I am not sure, but it seems to me -- well, it may not be in the rules. It may have been presented at the annual meeting and the policy agreed on by the membership. I don't see it here. Probably that is what it was.

Q. You don't find it in the rules. There is no written contract, so far as you are aware, between each member and the cooperative? A. No. There is no contract but it is a policy adopted by the membership.

Q. At the end of the month 10 per cent of what is deducted? A. At the end of the month the digger receives two thirds of the amount he should receive. The rest is kept in what is known as a hold-back account and at the end of the year the hold-back account is paid to the digger less 10 per cent, which is kept to build up a reserve account.

Q. Is the third that is held back credited to the individual member in the books of the cooperative? A. The 10 per cent --

Q. I am not speaking of the 10 per cent but the third held back. Is that credited to the member? A. Yes. It is credited to him and paid to him at the end of the





season.

Q. And it would show in the accounts of the co-operative as a liability? A. As held back.

Q. Have you the 1943 balance sheet? A. No, I am sorry we haven't got it.

Q. You filed the 1943 balance sheet in Victoria?  
A. Yes.

Q. Having bought the clams from the member, you pack them and sell them; and what about the people who work in the cannery? A. They are all members of the cooperative.

Q. You spoke of wages. Do they pay wages?  
A. They are paid at the union rate, as you will see in the brief. That is used as our gauge for labour costs.

Q. Those members that are paid wages -- have they any interest in the earnings -- we will call it surplus or whatever you like. Have they any interest in the surplus of the cooperative if there is one? A. Yes. If we have a surplus, then at such time as the surplus is to be allocated to the members they will receive a share of the surplus in proportion to the amount of services they gave to the cooperative.

Q. Can you make that clearer? A. One person was paid ten dollars in wages, say, and another person \$100 in wages: then the person who was paid \$10 would get one tenth as much as the one who received \$100.

Q. They would relate these amounts to the amount paid to those who produced the clams in deciding what they would get out of the surplus? A. Whatever service the member puts into the cooperative is his share of the surplus.

Q. Is that set out anywhere except in the rules?



Is it set out what the rights of the members are? A. That is the fundamental law of the cooperatives, that this surplus is returned to the members as a patronage refund in proportion to the amount of business or service they do with or give to the cooperative.

Q. Where does the money come from to pay for the machinery? A. That comes out of the share capital. That is what we paid our beach leases with, and also out of the reserve fund.

Q. How much did you say your share capital was? How many members have you? A. Three hundred paid-up members.

Q. How much are the shares? A. Ten dollars.

Q. And you paid \$5,000 to begin with on the purchase of the clam beaches? A. Yes. Part of that was by member loans.

Q. You bought the machinery in the cannery? A. No. The cannery machiner was not charged for. The machinery that was in the cannery was used. It did not belong to Nelson Brothers but to the Queen Charlotte Cannery. The members of the Queen Charlotte Cannery were very much interested in this cooperative project and felt it meant so much for the community that they were willing to allow the cooperative to use the machinery without charge, only that they would keep it in repair and upkeep.

Q. The cooperative does not own the machinery but merely uses it under an arrangement with Queen Charlotte Cannery? A. Yes.

Q. Has the cooperative any other capital investment except the clam beaches? Have they additional



machinery? A. We have one new truck, and others were turned over in the original purchase price.

Q. Up to date you have not had a profit, or it has not been decided how the profits or surpluses are to be distributed? So far you have made no profits? A. We had a small profit on one or two operations.

Q. But you have not made a distribution? A. No. There was such a large deficit that it would eat up what we did have as a surplus.

Q. The amount of the distribution is recommended by the directors and approved by the members? A. Yes.

Q. Is that so under your rules? A. Yes.

Q. You can these clams, and does the association sell them on the market -- canned clams? A. Our sales are done through a New York firm that handles the selling of all cooperative products.

Q. Do you have your own brand? A. Our clams are sold under the cooperative label.

Q. The Masset cooperative label? A. Yes.

Q. Do you carry on banking operations? A. Yes.

Q. In Prince Rupert? A. Yes.

Q. Tell the Commission about the store. Where did the funds come from to purchase the stock-in-trade for the store? A. From the share capital that was raised in the two communities.

Q. So that we may be sure that we do not misunderstand each other, when you say "share capital" do you mean money realized from the sale of shares? A. Yes.

Q. I understand the total of that is \$3,000? A. No. The store is a different operation. That is a different organization entirely. It is a consumer cooperative; we are a producer cooperative. It covers the





consumer end of it. The store is a separate entity.

Q. I understood your brief to say that the association had started up the store, or was operating a store. Isn't that right? A. No. The Massett association is not running the store. They are separate organizations.

Q. What is the name? I would like to know.

A. I think the store is incorporated under the name of Massett Cooperative Association. It was a technicality. Our operations as far as financing is concerned are absolutely separate. They are handled separately and they are handled by a separate board of directors. There is a board of directors for the cannery and a board of directors for the consumer cooperative.

Q. Is it registered under the Cooperative Associations Act? A. Yes.

Q. There are two separate certificates of incorporation? A. Yes.

Q. Has your association any interest in the store? A. I think we have one share.

Q. Perhaps you can tell me how the store operates. Its capital is provided by this separate organization you speak of? A. Yes.

Q. Which sells general merchandise. Can you tell me --

THE CHAIRMAN: The witness is not an official of that association.

MR. LOCKE: If someone is going to give evidence in regard to it I will not ask this witness. Is anyone going to give evidence in regard to it, Mr. Francis?

MR. FRANCIS: I have no instructions.

THE CHAIRMAN: We are limited to this organization.



MR. FRANCIS: The word in the brief is "we". There she is referring to the people of the community.

THE WITNESS: It should have been the people, not "we".

MR. LOCKE: I will not ask further questions. There are a number of these stores. I am sure this witness could explain how the store operates, but if you think that is not satisfactory I will not persist.

THE CHAIRMAN: We cannot wander far afield.

MR. LOCKE: We are not wandering, Mr. Chairman.

THE CHAIRMAN: No; perhaps that is as bad a word as profits.

MR. LOCKE: You will hear a lot about the stores.

THE CHAIRMAN: There will be briefs submitted in regard to stores.

BY MR. LOCKE:

Q. Is there a copy of the 1943 balance sheet in town? I can get it by telephoning to Victoria. A. I can have it on hand tomorrow.

Q. I might want to ask one or two questions about the balance sheet. May I defer that until tomorrow? A. I have the 1943.

Q. That will do for my purpose as well as 1944. A. Very well.

BY MR. FRANCIS:

Q. There is one point. Something was said about wages, and under examination by Mr. Locke, Mr. Simpson, you admitted that a sale of clams took place. I don't understand this myself and I want to clear it up. On page 4, at the top of the page, you say a surplus from operations is allocated each year to the members as a



percentage of their wage earnings, and reference is made later on to wages; and on page 6 you say you use the union wage scale as a gauge for labour costs. My understanding is that the 4 cents is really advance wage for digging the clams? A. Yes. The board of directors always felt that the hardest part of the work is done by the clam digger and he should be reimbursed to the best of our ability. At the time they received one and a half cents for clams, and as we successively received an increase in the canned product we have given them the advantage of that increase. He gets the raw product.

Q. The point is this. Is this correct? The four cents a pound is an advance? That is wages for digging the clams? A. Yes.

Q. And you pay four cents. Your experience with the other organization was one and a half? A. Yes.

Q. So that it is not a sale of clams by the digger to the association? A. No.

MR. PARKER: Who owns the clams?

BY MR. LOCKE:

Q. May I ask that? Who owns the clams when they are brought in? A. Until such time as the clams are weighed they belong to the digger. When they are weighed they belong to the association. If I dig a box of clams that is my box of clams until such time as they are weighed, when they become the property of the association.

Q. I do not want to confuse you, but I should think that if the clam digger is working for wages for the association, in grounds owned by the association, the clams would at all times remain the property of the association. A. In so far as the diggers ride on our





trucks and the clams are brought to the cannery on our trucks, they are ours. But anyone can dig on these beaches. We don't restrict the right to dig on our beaches to our diggers. Anyone can dig clams for private consumption.

Q. The grounds themselves are owned by the association? A. Leased. The rights are ours.

Q. I see -- well, I say I see, but I am afraid I don't. Now going back to the contract, is this the rule regarding the marketing contracts that you refer to -- Rule 7 on page 13: "Every existing member and each applicant may be required to execute an agreement with the association covering the sale of all his fish, fish products, oysters, clams and other forms of shell fish through the association in accordance with the terms of such contract and shall be furnished free of charge upon his request with a copy of such contract." Is that what you were looking for in the rules? A. You were asking me about the allocation --

Q. I was asking if there was anything in the nature of a contract between the member and the association. A. I am not familiar with the office work but with the practical end of it. I am a digger myself and I don't sign an agreement with the company, but it is a mutual understanding. I go on trucks and dig clams and the clams are trucked in and they are the property of the cannery. We have no members who would do anything else than that.

The Commission thereupon adjourned until Tuesday at 10 a. m.

.....



Tuesday,  
January 16, 1945.

The Commission resumed at 10 a. m.

MR. PARKER: Mr. Chairman, when we adjourned yesterday Mr. Locke had asked for the balance sheet for 1943 and Mrs. Simpson undertook to get it. I understand she has located it, and perhaps Mr. Locke would like to finish with that witness.

MR. FRANCIS: I would like to make a statement in this regard. We undertook yesterday to submit a copy of the 1944 financial statement as soon as available and to try to locate in the city a copy of the 1943 statement. We have just located the 1943 statement -- I have it here-- and we are prepared of course to file it. The only point is that Mr. Simpson is not the manager and is therefore not acquainted with the bookkeeping, but we would be glad to file a statement and supply any additional information which the Commission might desire, by affidavit or otherwise, from the manager, who is acquainted with the financial operations. But I would suggest with great respect that Mrs. Simpson should not be subjected to cross-examination on the financial statement.

THE CHAIRMAN: Will she come and declare that she is not familiar with it and cannot answer questions? In the meantime it might be submitted to the Commission accountant. Is this the 1943 statement?

MR. FRANCIS: Yes, Mr. Chairman.

MR. LOCKE: Do you know this, Mrs. Simpson?

THE CHAIRMAN: Call Mrs. Simpson.

MRS. S. L. SIMPSON,  
Vice-President,  
Masset Co-operative Association, recalled:

THE CHAIRMAN: Hand the statement to the witness, Mr. Locke, and ask her if she will file it.



(Balance Sheet for 1943, Massett Co-operative Association, filed and marked as EXHIBIT 2.)

---

BY MR. LOCKE:

Q. You do not understand the details of the accounting? A. No. I am not the bookkeeper and am not familiar with the dealings of the company. That is entirely my husband's and the bookkeeper's duty.

Q. Do you know this document, now marked Exhibit 2? Is that a copy of the balance sheet which is filed with the Registrar of Companies in Victoria? A. Yes..

Q. It is the same thing? A. Yes, exactly the same, and as soon as the 1944 statement arrives we will file it as well.

THE CHAIRMAN: Does that dispose of the case?

MR. LOCKE: Yes, subject to the undertakings that have been given.

THE CHAIRMAN: What is the next case, Mr. Parker.

MR. FRANCIS: The next case is that of the Co-operative Wholesale Society of British Columbia. I wish to call Mr. L. H. C. Phillips.

L. H. C. PHILLIPS,  
Manager, Co-operative Wholesale  
Society of British Columbia,  
having been duly sworn testified  
as follows:

---

BY MR. FRANCIS:

Q. You are the manager of the Cooperative Wholesale Society of British Columbia? A. Yes.

Q. Do you reside in Vancouver? A. Yes, sir.

Q. The office of the Society is in Vancouver?  
A. Yes.

Q. Will you please read to the members of the Commission the brief that has been prepared on behalf





of this Society? A. Mr. Chairman and gentlemen of the Commission, this is a brief submitted by the Cooperative Wholesale Society of British Columbia. It reads as follows:

"1. Incorporation:

The Co-operative Wholesale Society of British Columbia (hereinafter called 'the Society') was organized in 1939 as a result of a conference held in May of that year by twenty-one co-operative organizations located in this province. Incorporation under the Co-operative Associations Act of the Province of British Columbia took place on October 11, 1939, and Charter No. 416 was issued to the Society at that time. The Society did not commence transacting business, however, until September, 1940, when its present Vancouver office was opened.

"2. Objects.

The objects of the Society are chiefly to effect savings for its member-associations through financing, consolidation of purchases, pooling of orders, maintaining of necessary stocks; to render brokerage and sales agency service to those of its producer or marketing member-associations who may require such service; to provide an efficient and economical centralized accounting and management system for the use of those of its member-associations who desire it; to represent its member-associations severally or jointly in their contacts with Governmental and other agencies as required; in short, to assist its member-associations in any way possible by supplying services which may be difficult or impossible for them to otherwise obtain. It is also the object of the Society to assist in the development of the Co-operative Movement generally by sponsoring and financing educational activities



along co-operative lines.

"3. Control and Administration:

The Society is controlled entirely by its member-associations. These number at the present time twenty-six. Membership in the Society is limited to organizations incorporated under the Co-operative Associations Act of British Columbia: no individual person may be a member. Membership control is exercised by duly-appointed delegates to the General Meetings of the Society. An average of over 53% of the member-associations has been represented at the Annual Meetings of the Society during the past three years. The affairs of the Society are administered by a Board of Directors elected by the voting delegates at each Annual Meeting of the Society. A Director of the Society must be a member of a member-association.

"4. Financing:

The Society is financed primarily by share capital subscribed by its member-associations. No interest is paid on share capital. All surpluses on operations -- apart from legally required reserves -- are allocated yearly to the participating member-associations by way of patronage dividends. Such patronage dividends may be applied to the member-associations Share Capital Account, or the member-associations may permit the Society to retain such dividends after allocation in a Deferred Dividend Account to increase its working capital. No interest is paid on deferred dividends. It is intended that eventual payment of deferred dividends will be made through what is known as a 'revolving door fund' as and when the accumulated working capital of the Society shall be deemed by the member-associations to be sufficient.



"It will be appreciated by the Commission that the Society is a comparatively young organization, and that its growth has been considerably hampered on account of wartime restrictions and regulations. The following figures may, nevertheless, be of interest to the Commission:-

From date of incorporation up to December 31, 1943

|   |             |
|---|-------------|
| Share Capital Subscribed                            | \$ 4,850.00 |
| Sales   | 64,213.66   |
| Member-associations purchases subject to commission | 682,240.06  |
| Commissions Received                                | 15,150.61   |
| Net Surpluses                                       | 7,988.17    |
| Refund Allotment to Member-associations             | 5,950.94    |
| Legal Reserves                                      | 803.81      |

"5. Non-member Business:

Except when acting as a sales agent for a member-association, the Society does not sell to non-members and therefore has no problem in regard to the treatment of surpluses arising from such business.

"6. Affiliations:

The Society is a member of Interprovincial Co-operatives Limited which is a federation of provincial wholesale co-operative societies and similar organizations throughout Canada, and also a member of the British Columbia Co-operative Union.

"7. General:

The Society is a non-profit organization supplying services or commodities to its member-associations at cost. Apart from legal reserves, the policy and practice is to allocate all surpluses to member-associations on a patronage basis after each year's operation. The Society





has never been assessed under the Income War Tax Act, as it comes within the exemptions set forth in Clause 4 (p) of the Income War Tax Act.

"It may be contended that the growth and increase of such non-profit organizations as the Society, supplanting as they do private profit-making enterprises whose profits are taxable, tend to cripple the State by destroying its sources of revenue. This is untrue: for all that really need occur in such circumstances is a change in the source of revenue. If wealth exists, few will doubt the ability of the modern state to obtain its required portion one way or another.

"It may be contended that should the State have to seek its revenue elsewhere than from such organizations as the Society, the individual co-operator is thereby escaping his just share of the general taxation. This contention over-looks the fact that the State in the main naturally tends to tax its members in accordance with their ability to pay. If a co-operator's ability to pay is increased by the efficiency of his non-profit organization, any additional taxable income in his hands will yield additional revenue to the State.

"The Society considers the principles upon which it is founded as being democratic. It further considers Democracy to be a living thing capable of growth and evolution like any other organism. It maintains that Democracy exists in a more advanced stage in non-profit co-operative organizations than in profit-making enterprises; and that if the nature of the co-operative technique chances to block certain channels of State revenue, the duty of the State is to accordingly change the incidence of taxation in the interests of Democracy.





All of which is respectfully submitted.

Co-operative Wholesale Society  
of British Columbia.

L. H. C. Phillips  
Manager"

Documents filed with brief:

- (a) Mimeographed copy of the Society's Memorandum of Association
- (b) Copy of the Society's Rules.

.....

THE WITNESS: I would like to append the memorandum of agreement a copy of which each member of the Association signs with the Association at the time of taking out membership. This was omitted from the brief. I have ten copies.

THE CHAIRMAN: They should be annexed to the brief rather than filed as exhibits. Are there any questions, Mr. Francis?

MR. FRANCIS: I have no questions to ask.

BY MR. PARKER:

Q. How long have you been associated with the so-called cooperative movement, Mr. Phillips? A. Since 1930.

Q. In what capacity did you first serve in the movement? A. I was in the first fishermen's Cooperative Association started in 1929. I was on the Board of Directors of the organization.

Q. Since that time your entire activities have been connected one way or another with cooperative associations? A. For a brief period of two years, 1933 to 1935, I was not directly connected with the cooperative movement. Since then I have been connected with it continuously.



Q. Prior to 1929 what was your business? What were you trained in? A. In 1929 I was fishing. I had been fishing from 1928 to 1929.

Q. That is, fishing individually as a real fisherman? A. A commercial fisherman.

Q. Not a dealer in fish but one who caught fish? A. That is right, a producer.

Q. This Society which you represent this morning is incorporated under the British Columbia Act? A. Yes.

Q. And a copy of the memorandum is attached? A. Yes.

Q. Are the rules governing this organization statutory rules or have there been any changes from the statutory rules? A. We have the privilege of changing Schedule B of the act to meet our needs and we did that in this case. We did not take the schedule as it is in the act, but they are very similar.

Q. In what respects do they differ? A. I cannot recall the exact differences at the present time.

Q. Speaking generally, however, what differences are there? In what part of the rules is there a difference? A. I really cannot say without comparing them.

Q. Did the difference have to do, for instance, with the distribution of ~~of~~ surpluses? A. No.

Q. What was the difference then? A. I can think of one change. In Schedule B it provides for payment of interest on shares. We left that out in our case.

Q. Apart from that, you do not recall any other at the moment? A. Not any major changes, no.

Q. In paragraph 2 of your brief you state the objects of the society are chiefly to effect savings for



member associations. What do you mean by savings? A. I mean being able to obtain goods for them chiefly at less cost than they are individually able to obtain them for themselves.

Q. Does not an ordinary joint stock company purchase goods cheaper than individuals can? A. Possibly.

THE CHAIRMAN: A wholesale company you mean, Mr. Parker.

MR. PARKER: Wholesale, yes.

BY MR. PARKER:

Q. A wholesale company of the ordinary type can do exactly the same business as this society is doing?

A. Yes, it does.

Q. And if it saved, as you say, it could buy cheaper and there would be what you call a surplus?

A. Are you speaking of a private company?

Q. The same as yours; they are both the same. They would have a surplus. A. They could possibly.

Q. And in one case the ordinary company distributes that surplus to the shareholders. That is the ordinary practice. A. Yes.

Q. Whereas in your case, instead of distributing to shareholders you distribute to members? A. That is right.

Q. In your judgment, does it make any difference to the nature of the thing distributed according to the persons to whom it is distributed? A. Yes, it does, distinctly.

Q. Explain how that can change the nature of the thing distributed. A. Well, in the case of the private company surpluses are made from other sections





of the community. They are not made in behalf of the people purchasing. In the case of the cooperative society, the cooperatives definitely purchase. It is the same as if one individual purchased a case of milk from one store for five dollars and then found that he could purchase it for \$4.80 from another store. He has not made a profit if he goes to the second store. In this case it is very similar.

Q. In your judgment does it make any difference to the nature of this thing we call surplus from the standpoint of why it was accumulated? In other words, does the motive for acquiring the surplus have anything to do with the nature of the thing acquired? A. I think so.

Q. Tell us how you arrive at that conclusion? A. I have explained it; it is because it is a saving and not a profit.

Q. You say that the same argument or explanation you gave as to why the person who received it makes any difference as to why it was accumulated? A. I don't get that.

Q. You have told me that it makes all the difference in the world, as to who gets the surplus, as to the nature of it? A. Yes.

Q. The nature of it is governed according to those who receive it. Do you agree with that? A. Yes.

Q. And is the nature of the thing distributed also governed by the considerations which prompt its acquisition. Do you understand that? A. Yes.

Q. You think it changes the nature of the thing acquired according to the reasons for which it was acquired?



A. Yes.

Q. Why? I cannot follow you. A. Simply because in a cooperative association we are using the funds of members themselves to buy certain products for those members. We guarantee or should guarantee the return of surpluses made on this transaction to members. If we could know beforehand exactly what the commodities would cost presumably, in theory at least, we could take only that amount from members to make purchases with. Usually, however, that is impossible to ascertain beforehand and so in effect we get more from the members than we require for purchasing their goods, and when we ascertain the cost in a given period we return the surplus. That is a saving and not a profit.

THE CHAIRMAN: Your idea is that if you could ascertain the ideal price you would get that from your members and there could be no profit.

THE WITNESS: Exactly.

THE CHAIRMAN: It is because of the difficulty of ascertaining the exact price that you ask a little more and then return the difference as a dividend.

THE WITNESS: That is correct.

BY MR. PARKER:

Q. The act under which you are incorporated gives you authority, and your rules give you directions as to what to do with the profits of your company. Isn't that so? A. It does.

Q. Do I understand you to interpret the word "profits" as used in the act and in your rules as meaning what you now refer to as surpluses? A. Exactly. We have never felt happy under the wording of the act.



We have made many attempts to have the act changed. The Cooperative Wholesale Society, in the first conference I refer to in the first paragraph of my brief, and at many other meetings since, have appealed to the Attorney General to have the act revised and that is one of the revisions which we would have in mind.

THE CHAIRMAN: Would you substitute the word surplus for the word profit in the act?

THE WITNESS: Yes.

THE CHAIRMAN: Would that satisfy you?

THE WITNESS: Yes.

THE CHAIRMAN: Do you regard the terms as synonymous.

THE WITNESS: We do not feel that they are profits.

BY MR. PARKER:

Q. It would be helpful if you would tell us what you understand profits to mean. What are profits?

A. Profits are surpluses on an operation which are retained by an outside party to the operation, shall we say. Profits are sums, in a transaction, over and above the cost of that transaction and which are retained by an organization or person who has taken the sums in the first instance from others and keeps them without any idea of ownership other than of the organization or persons themselves. I am not very explicit because I have not thought out the definition of profits.

THE CHAIRMAN: It is a word which apparently is very difficult to define.

BY MR. PARKER:

Q. I do not think you need feel the slightest embarrassment if you find yourself under the necessity



of struggling with the term.

THE CHAIRMAN: You are in good company. The House of Lords has not found it easy.

THE WITNESS: It must be a compliment to me that Mr. Parker should ask me to define the word.

BY MR. PARKER:

Q. You have taken the responsibility upon yourself of drawing the distinction between profits and surpluses and therefore I assumed that, having taken that responsibility, you would know the difference between the two. A. All I would be able to do is to define "savings", and anything that is not savings may be considered as profits.

Q. Will you tell us, then, what savings are?

A. Savings are funds returned on a transaction to people who supply money. Savings are monies over and above the cost of a transaction.

Q. At the risk of consuming a minute or two of the time of this Commission, let me put this illustration to you. I want a new suit of clothes, we will say, and I am able to buy a suit for \$40.00 or one for \$50.00 or one for \$75.00. I go to a haberdashery and I say, "I think that suit for \$40.00 will serve my purposes and will satisfy my respectability and keep me warm, and so on." Instead of spending \$75.00 I spend only \$40.00. Have I saved \$35.00? A. I would say that, yes.

Q. Have I made \$35.00 profit? A. No.

Q. Then there is a considerable difference between savings and profits. A. Definitely.

Q. Have I made a surplus? A. You have not made a surplus. But suppose you asked me to buy that suit and





gave me \$75.00 with the option of buying what I thought best for you and I bought a suit for \$40.00, I would have a surplus in my hand which I would return to you, unless I was a profit-making organization.

Q. Would that be a saving for you or for me?

A. A saving for you.

THE CHAIRMAN: If you did not return the difference you would appear in another Court.

THE WITNESS: Exactly.

BY MR. PARKER:

Q. I realize, Mr. Phillips, that you do not hold yourself out as an economist; you are a practical co-operative man? A. Yes.

Q. But have you done any particular amount of reading on the subject? Have you read what the experts have said upon it, dealing with profits and similar questions? Have you done any such reading? A. No, except in a desultory manner.

Q. You have not read, I suppose the book written by Sydney and Beatrice Webb on the cooperative movement in Great Britain? A. I remember the book and as a matter of fact I have looked into it, but that was many years ago.

Q. Have you read any of the legal decisions of the courts on the question of what constitutes profits? A. No.

Q. Or what the law lords have said about it? A. No.

Q. You have not delved into that? A. No.

THE CHAIRMAN: I advise you not to do so.

MR. PARKER: I hope you are not implying, Mr.



Chairman, that you have yourself become confused after such reading?

THE CHAIRMAN: No. We have to read these things, but I do not think that Mr. Phillips is under that necessity.

BY MR. PARKER:

Q. Do I understand that this particular society does not do business except on behalf of its members?

A. That is right.

Q. But you do in fact go out into the market and buy large quantities of supplies? A. Yes.

Q. Your society buys them? A. Yes.

Q. And with whose money do you buy them? A. With that of the member associations.

Q. How do you get it? A. Buy share capital, by retained dividends and, if necessary, by loans from them.

Q. Stop there a minute. You buy goods; that much is clear. A. Yes.

Q. I mean, your society? A. Yes.

Q. You have to have money and you get the money in three ways. First you sell shares in your association? A. Yes.

Q. And get cash for them? A. Yes.

Q. Is not that cash the cash of your association rather than of the members? A. Only temporarily and in a manner a trust, though probably not in the legal sense of the word trust. But we regard it as such.

Q. I had this same difficulty yesterday. I find it difficult to reconcile a transaction that can be at the same time a purchase and sale and also a trust. You



either sell these shares, and when you get the money it is yours, or else you do something else. Just what do you do? A. May I use your own illustration?

Q. I would rather you answered the question?

A. I will answer it with an illustration.

Q. Answer it and then explain? A. Do you want an answer yes or no?

Q. If the question is capable of such an answer?

A. Well, I do not think it can be answered in that way. I will illustrate. If you were in the country and asked me to buy a suit of clothes, or perhaps let me say that if a number of people like you and your friends asked me to do the same thing, and if the most efficient way of doing it were to send the money to me, without legal red tape -- if you said, "This is not a gift or a loan or something in trust or something of that kind, but we are sending the money to Mr. Phillips and we will let him use his judgment." -- and if bought the required commodities for you, temporarily that money would appear to be mine. Perhaps legally it would be and you would have a job to prove that it was taken in trust; but actually it would be in trust. And only to that extent does the association use its share capital.

Q. When an ordinary company places its shares for sale it sells them and the buyer pays his money and that money goes into the company treasury. You know enough about the set-up of companies to know that. A. Yes.

Q. When your association was incorporated you sold your shares and got money and put it into your company's treasury. A. Yes.

Q. What is the difference between those two





transactions? A. If you are asking me to give my opinion as to whether a cooperative association is a legal entity --

Q. I am not asking that. A. If that is involved in the question I admit it immediately, but in the nature of the cooperative technique it is different from a private company because the shares are subscribed for the purpose of servicing the member associations who put it up. The object is not to earn money for shareholders on the amount of shares they put in. Is that all right?

Q. It is all right with me if it is with you. You are the man who is making the explanation, not I. Is that all you want to say about it? A. I think so.

Q. That is one source from which your company gets money. Then they get it secondly by holding back the amount which would otherwise be distributed. A. Yes.

Q. Whose money is that? A. That belongs to the individual member and is so allocated in our books.

Q. Then you spoke about loans. Does the money become transformed into a loan later? A. It may be regarded as a temporary loan if you like, but we call it a deferred dividend. If we did not have enough working capital in the organization, and if there were an opportunity to purchase some commodity to the benefit of the members, we might appeal to them individually or as a group to supply direct loans just as if we had gone to the bank.

Q. Or you might borrow from the bank? A. Yes.

Q. You do as a matter of fact borrow from the bank? A. We have not so far, but we could.

Q. You have been able to get sufficient from the



members to finance? A. That is right.

THE CHAIRMAN: But you regard the amount derived from deferred dividends as essential to your operations?

THE WITNESS: Oh, yes.

BY MR. ARNASON:

Q. Referring back to the use of share capital, would you consider the funds in the hands of the association there for the purpose of what might be termed the delegation of buying power on behalf of the members? A. I would.

BY MR. PARKER:

Q. In paragraph 5 of your submission, Mr. Phillips, you say that except when acting as sales agent for a member association, the society does not sell to non-members. What do you mean by that? A. In our organization we have both consumer and marketing organizations, or producers. We have fishermen's organizations in our group. We service different concerns on the same basis, but they occasionally have products they require to sell on the open market and it is convenient for them to have us act as their agents, and under those conditions we sell to the general public, but only the produce of our members.

Q. The produce of your members you sell to the general public, and does your association get remuneration for that service? A. What we estimate to be our cost. We estimate it on a percentage basis, something of the same kind as the average broker's percentage, whatever it might be. I am not prepared to say how it is worked out. So far possibly we have been doing it under cost because it is a service.

Q. As a service is it any different from what any other broker does in carrying on business on a commission basis? A. No different at all.



Q. If a broker does service on a commission basis and makes a dollar, that would be a profit? A. Yes.

Q. And why is not yours? A. Because we return it to the members. A profit is not a profit unless it is held.

Q. I make a dollar or two practicing law and if I pay it away I cannot at the end of the year get the Income Tax Department to say that I have not made a profit. It makes no difference what I do with the profits once I make them. A. If you over charge your client and repay him, if you give him a refund -- of course, I am not suggesting that that is possible.

Q. I realize that it is an utter impossibility that such a thing would be done. A. In the cooperative movement that is done continually. We do overcharge members for service given them, and when we ascertain the overcharge we return it and therefore we have not a profit.

Q. That enables you to compete strongly against ordinary companies in the same line of business? A. We think so.

Q. Would you go further and say that it would be desirable that these organizations should go on and drive the ordinary companies out of business and you occupy the whole field? A. That is a matter of high policy on which I am not prepared to offer any comment.

MR. FRANCIS: I submit, Mr. Chairman, that this is a fact finding Commission and that question should be withdrawn.

THE CHAIRMAN: Is not that one of the answers that this Commission has to give.



MR. PARKER: Perhaps it is. I thought it might be useful.

THE CHAIRMAN: I did not think that Mr. Phillips would answer it.

MR. PARKER: Does he object to answering it?

THE CHAIRMAN: He says he is not capable of answering it.

BY MR. PARKER:

Q. I suppose the facts and figures set forth in your brief are known to you. You are now under oath, as you realize no doubt. Are you in a position to swear to the truth of all the facts alleged in your statement? Are they within your own personal knowledge? A. Are you speaking of financial figures?

Q. The facts are not given at second hand are they? They are not what somebody else told you; they are within your personal knowledge? A. Yes.

Q. There is no fee to become a member except the buying of a certain number of shares. A. That is right.

Q. And you are a member of the British Columbia Cooperative Union? A. Yes, the Society is.

Q. What advantage is it to your company to be a member of the British Columbia Cooperative Union? A. We are able through the medium of the Union to support the efforts of cooperative education in the way of protective legislation and other things that the Cooperative Union may be able to do for cooperatives generally.

Q. You make a suggestion in the latter part of your brief, as an alternative to imposing a tax on these surpluses in the hands of the cooperative, on surplus





finding its way back to individual members and thereby increasing their income they should pay accordingly.

That is the substance of your suggestion? A. Yes.

Q. With reference to the paragraph at the bottom of page 3 where you speak of non-profit organizations supplanting private profit making enterprises, you agree that they do supplant private profit making enterprises?

A. In instances.

Q. That is the tendency. You say it tends to cripple the state by destroying the sources of revenue. In a word, you intend that to be summary of the charge that is made against your cooperatives by the non-cooperatives? A. Yes.

Q. Assuming that is so, you say that the remedy is simply a change in the source of revenue. What change have you in mind? A. A change in the incidence of taxation.

Q. But what is the incidence that you suggest?

A. I am not on the tax commission. I do not have to suggest the change, but my contention is this, that changes have to be made continually by the state in the sources of revenue and if this is a necessary change the state will make it. I have no doubt in my mind that the state will do that.

Q. They have to have revenue from some source?

A. Yes. The charge has been made that the cooperative movement at the present time, in its non-taxed status, is robbing the state. We claim that it does not. The state may change the incidence of taxation.

Q. Do you contend that your Society and similar societies are non-taxable by reason of Section 4(p), that they are non-taxable because in the very nature of the



business that is carried on they do not and cannot make a profit? A. By reason of their technique.

Q. That is, apart altogether from the statute?

A. Yes.

Q. In other words, you say that if Section 4(p) were not in the Income Tax Act, by reason of the very nature of the business you carry on you would not be subject to taxation? A. In theory at least, that would be so.

Q. Theory is not good enough. You suggest that in fact you do not make a profit and therefore have no tax to pay. Is that your position? A. That is right.

Q. You make another statement on page 4 of your brief. You say it may be contended that, should the state have to seek its revenue elsewhere than from such organizations as the society, the individual cooperatives thereby escape their just share of taxation. You say that this contention overlooks the fact that the state, in the main, naturally tends to tax its members in accordance with their ability to pay. Why do you make that statement. Is that a statement of fact or is it an argument? A. I make that statement because it seems to escape those who contend that the cooperative movement robs the state. I take as self-evident what is there stated; or it should be self-evident.

Q. Assuming for the moment that there is a proper basis of taxation, namely, according to the ability of the individual to pay, would not the application of that proposition render your society taxable? A. It would if the state were not a democratic state as well.

Q. I do not think we will go into that?



BY MR. ELLIOTT:

Q. On that same point. As you understand the phrase "ability to pay", that would include charging the individuals who were in precisely the same circumstances precisely the same amount, taking into consideration all the circumstances? A. That should be so.

Q. Now if there were two individuals, one of whom was a member of a cooperative association and the other was not, and they were the same in all respects and received the same individual income, then they ought to be treated alike by the taxation authorities?

A. Yes.

Q. If one of those individuals put aside or paid over or transferred to someone else a sum of money and received a benefit because he did that, while another individual put aside a sum of money in a different way and received a like benefit, then presumably those respective benefits would enhance their ability to pay.

Perhaps that is too general a question. Would you like to be more specific? A. I think the question can be answered in this way. The state, as I have said, tends to tax people according to their ability to pay, and --

Q. That is one of the reasons? A. The state being composed of human elements naturally makes human mistakes. The state does not have at any time its incidence of taxation quite evenly distributed. That is understandable. The ideal would be to have every one pay. One factor in a person's ability to pay which the state will never be able to ascertain is the expense to which that person is an efficient operator and the state can only judge as far as equal incomes are concerned. But if you and I have equal incomes and I





choose to buy my clothing and other necessities at a place where charges are higher than they are at the place where you buy yours, my ability to pay is decreased. But the state will never know that.

Q. My point is slightly different, and it is an important one I think. Your members allow certain of their payments to you to remain in your hands for their benefit. The reserves that you speak about do in fact benefit your members. A. Yes.

Q. They are necessary to carry on business? The surplus, then, is in part a result of the existence of these reserves. Without them you could not very well carry on business? A. That is right.

Q. These reserves, set aside in a particular year, which result in part from the proceeds of former business and in part from the fact that the members have left something with you, are taken in the next year and a part of them is again set aside as reserves. In an ordinary one-man business all the benefits of such reserves would accrue to the one man in one year. That is so? A. Yes.

Q. He would be taxed on that income. Would you mind saying yes if you agree? A. Yes, except that I was not quite clear on that. Speaking of a one-man business in the terms of cooperation, it would mean one man buying from one store or another as he chose. But in the case of an association, the purchasing is done for a group of people.

Q. If he were buying seed grain and he bought it for a smaller amount, that would mean that his expenses for that year would be smaller, and therefore his net



income would be larger and he would be taxable that year. A. Speaking of private business.

Q. One man. A. Yes.

Q. On the other hand, if the one man or if the member leaves a part of the reserves in your hands that will result in a benefit to you and him in the next year. These reserves are necessary for you to carry on your business. A. Not to him. It is only to me that the benefits would accrue -- that is, speaking of me as the society.

Q. Supposing you are his agent. They will come to you first, these benefits, and you will hold them or a part of them for him, and that goes on. He does not then in each year get precisely the benefit which in a one-man business would accrue to him from the use of those funds in a particular year. Something is held over. A. Possibly, yes.

Q. If that something that is held over had come into the hands of one individual in a particular year it would have been taxable? A. Yes.

Q. So that in fact your member, as compared with the individual who buys privately, has a slight advantage to the extent that he is allowed to have that benefit stand to his account without paying taxes on it in the particular year. He would pay taxes on it later. A. Yes.

Q. That is so? A. That is true.

BY MR. VAUGHAN:

Q. First of all, Mr. Phillips, will you give some more information about the revolving fund? Can you tell us how it works and what it is? A. It is an account



into which we put all the declared dividends that have been allocated to the members. It is left in there at the discretion of the members themselves, as I have stated in the brief, until they decide that their society has enough working capital. It is fairly elastic. But in the contract which the association signs, one of the things which the Wholesale Society agrees to do is (a) to open and operate a buying department, (b) to charge against the department only proper expenses of its operations, (c) to use every effort to supply to members in a satisfactory manner suitable goods and merchandise at competitive prices, and (d) -- I believe this is what you have in mind, Mr. Commissioner -- to distribute on a patronage basis, subject to the rules of the society, surplus earnings arising from the operations of the Wholesale Society and to pay to members the patronage dividends to which they are entitled, provided that with the approval of the majority of members signing this or a similar agreement, the Wholesale Society may retain such dividends as working capital. The revolving door principle operates in this way. When the members decide that they have enough working capital in their organization these overcharges are met in the following year just as they have been in the past.

2. I would refer you to the last paragraph, the very last part of it where you refer to the duty of the state to change the incidence of taxation in the interest of democracy. A. In other words, we charge the going price and any dividends allocated that year, instead of being kept in the Association's working capital, would be used to repay the first of the retained dividends.





Q. In changing the method of taxation, do you mean that the cooperatives should be taxed the same as other people if there is not enough revenue otherwise answered? A. No. I mean that where cooperatives are now taxed they should not be taxed because that is not in the interests of democracy.

Q. That is a pretty big question. Do you not think that many other things are in the interest of democracy? A. Our contention is that there is a greater measure of democracy in a cooperative organization, and if by taxing it you cripple it or stifle it, or withhold encouragement from it, that is not in the interests of democracy.

Q. Suppose all private business were converted into cooperative concerns; how would the incidence of taxation apply there? A. The state would naturally increase the excise, customs, and income taxes or pass some other necessary measure.. If all of us were co-operators it would not matter if we took the tax out of this pocket or out of that.

Q. Suppose the state could not get taxation in the way you suggest, then what would you propose? A. I cannot conceive of its not being able to obtain taxes provided the wealth exists.

Q. But you cannot tax people 110 per cent on what they receive? A. No.

Q. Where would the government raise the taxation if we all went cooperative and if the cooperatives were exempt?

THE CHAIRMAN: The present income tax would cover it.





THE WITNESS: Possibly it would.

THE CHAIRMAN: Businesses as such would not be taxed; it would be passed on to the individual.

THE WITNESS: Yes.

BY MR. VAUGHAN:

Q. And if it cannot be collected that way, what happens? A. I cannot conceive why it could not be collected that way. If it exists the state can get it.

Q. They do not get it all from income tax.

A. It gets a certain proportion now from taxation of business profits and you suggest that if these businesses ceased to exist as now constituted, the money would cease to exist. But it would be there and the government could reach it.

Q. Your suggestion would be to increase the individual income tax in the low categories as well as the high? A. Possibly; but I am not suggesting that that is what should be done. I am not a tax expert, and there may be other ways in which the government could get taxes. May I give an illustration? I come from a colony in which there were slaves about a hundred years ago. There was a head tax on slaves and it yielded the government a great deal of revenue. In due course slavery was abolished, and rightly so, and with the abolition of slavery that source of government revenue disappeared. But the government got its revenue by changing the incidence of taxation. It increased customs and excise and probably income tax. The fact is that the government got its revenue, notwithstanding that the former system was done away with, as it rightly should have been in the interests of democracy.



Q. You would suggest that duties should be increased to cover any deficit that might arise? A. If necessary.

THE CHAIRMAN: That is, the burden would rest on the individual rather than on the organization?

THE WITNESS: Yes. My contention is that the burden of taxation rests ultimately on the individual anyway. The consumer has to pay the taxes no matter how they are collected by the government.

BY MR. VAUGHAN:

Q. You are speaking of consumer cooperatives? You cannot speak on behalf of the producer cooperatives?

A. I am speaking in the larger sense, because the producer is himself a consumer of goods, and if his goods are taxed he passes it on to the ultimate consumer, who ultimately pays for everything.

BY MR. NADEAU:

Q. You said that your society did not make a profit? A. That is correct.

Q. Then what do you mean by this statement, which appears in paragraph 55 of your Rules and Regulations, where you say: "The directors shall, before recommending any patronage dividend, set aside out of the profits of the society", and so forth? A. I am glad you have asked that question, Mr. Commissioner. That was put in because the Registrar forced us to put it in.

THE CHAIRMAN: That is the standard by-law?

THE WITNESS: Yes. That is the term used in the Act and the Registrar of Companies said we would have to use it. We did not want to use it but he said we would have to.



BY MR. FRANCIS:

Q. Mr. Parker asked you to indicate the difference between the standard by-laws and the by-laws of your society and you mentioned one or two points. There is another one to which I would call the attention of the Commission. I would refer you to section 25, page 3, of the Rules, wherein it is set out that the member having fifty or less individual members shall have one duly elected or appointed delegate to the general meeting, and the member having more such members shall have an additional delegate for each additional fifty, and so on. I understand that your member associations are scattered throughout British Columbia? A. Yes.

Q. And you have had to revise the usual method of control by the delegate system? A. Yes.

Q. I understand that in a cooperative that serves a local community the individual members gather at the meeting and conduct the business. Is that correct? A. Yes.

Q. That is impossible in the case of your society because your member associations are scattered throughout the province? A. Yes.

Q. Therefore you have to devise a new method by which the members can control your society? A. That is correct.

Q. And that is, you will admit, an important variation from the standard by-laws? A. Quite so.

BY MR. VAUGHAN:

Q. I notice there is no balance sheet with this brief. Have you a balance sheet? A. I can supply the Commission with copies of the 1943 balance





sheet. We have not the 1944 yet.

Q. Have you one there, the 1943? A. I have one. I can let you have other copies if you wish.

Q. I think we should have one on file.

THE CHAIRMAN: Will you furnish the Registrar with some other copies?

THE WITNESS: I will, sir.

(Balance Sheet for 1943, Co-operative Wholesale Society of British Columbia, filed and marked EXHIBIT 3.)

THE CHAIRMAN: What is that filed as?

THE REGISTRAR: This is Exhibit 3.

BY MR. ARNASON:

Q. On page 3, section 6, you refer to affiliations. You say that the society is a member of Interprovincial Cooperatives Limited, which is a federation of provincial wholesale cooperative societies and similar organizations throughout Canada. I wonder, Mr. Phillips, whether you could give the Commission a little information as to why your society affiliated with interprovincial organizations such as Interprovincial Cooperatives Limited, and what benefits your organization derives from such affiliations? I ask just for our information. A. It is just carrying out the basic idea of cooperation generally, Mr. Commissioner. In the individual society the individuals get together in order to pool purchasing power and other assets with a view to obtaining savings or benefits. They get together in order to carry the principle further, to effect more savings which eventually come back to the individual member. In the case of Interprovincial they did it on a national scale. Provincial organizations got together on the same basis as societies have done individually in the provinces themselves.



THE CHAIRMAN: Are you a member of the Co-operative Union of Canada, of which Mr. Good is president?

THE WITNESS: Yes. The society was a member of that. But, as Mr. Clarke told the Commission yesterday, we have established the British Columbia Cooperative Union, which is a member of the Cooperative Union of Canada.

THE CHAIRMAN: I assume that any facts or arguments put forward by Mr. Good, who will present a brief on behalf of that Union, will be adopted by you?

THE WITNESS: You can fairly assume that, sir. We have tried to get away from ideological arguments, because they can be presented to better effect, with more time for thinking them out, by the central organization.

THE CHAIRMAN: I believe Mr. Good is president of the Cooperative Union of Canada?

THE WITNESS: Yes.

BY MR. VAUGHAN:

Q. I notice there is a credit to the revolving account, that is a credit to the members. On the other hand, you have loans to some cooperatives. Does that mean that the money is loaned out to other cooperatives?

A. Yes. What happened was this. In one case we were able to obtain supplies for our members by pre-paying some accounts. That is the nature of the account. They were loans without interest.

Q. What length of time do they run? A. Within six months. We actually got goods back from the purchasing organization to pay off the loan.

Q. They were temporary loans? A. Quite temporary.



Q. There is an amount here of \$4,850. What is that? A. That is subscribed share capital.

Q. How do you compensate the shareholders on money invested in that way? A. Only by services, There is no interest on shares.

Q. No payment whatever? A. No.

Q. These shareholders are members too, are they? A. Oh, yes.

BY MR. LOCKE:

Q. I would like to ask you one or two questions. Is the Prince Rupert Fishermen's Cooperative Association a member of your organization? A. It is.

Q. They operate two stores, one at Prince Rupert and one elsewhere? A. They operate a series of stores.

Q. Does your organization purchase merchandise for them? A. Yes.

Q. On what basis? On a commission basis, or do they buy from you? A. On the regular cooperative principle of patronage dividends.

Q. How do they buy the goods -- from you? Do you sell the merchandise? A. We invoice it at the regular price or at a range price.

Q. You sell them the goods; you are not their purchasing agents? A. We are agents in exactly the same sense as we are for our other members.

Q. I am trying to find out how it works. They want merchandise for their stores in Prince Rupert and you supply it to them at a price? A. Yes.

Q. I am asking this because this is a cooperative which Mr. Francis said would file a brief at Ottawa. How in the case of that cooperative do





they get the patronage dividend? A. A record is kept in our society of all purchases made by our members through the organization and also of all purchases made elsewhere from which we derive commissions. These are all kept yearly and at the end of the year the patronage dividend is distributed on the basis of each member's purchases. In that balance sheet I am filing there is a list showing the societies that did business with us during 1943. They are listed there -- Armstrong, and so on. In the case of the Prince Rupert they are aggregate purchases through wholesale. On that basis we distributed the patronage dividend.

Q. They would receive a proportion of the patronage dividend -- the proportion that their total purchases bore to the total of all purchases? A. Yes.

Q. In regard to the patronage dividends -- have they been declared? Have the directors recommended that a dividend be paid and have the members approved of it? A. That has been done at each annual meeting.

Q. Then the member cooperative is entitled, if it wishes, to draw the patronage dividend? A. On an agreed basis in accordance with the constitution.

Q. I have not seen your papers. A. Yes. It is allocated in their account and the majority of the members may decide when it is to be paid out.

Q. For instance, would the Prince Rupert cooperative be credited, in the books of your association, with their patronage dividend for the year? A. Yes.

Q. By arrangement between the association and Prince Rupert Cooperative they allow you to keep that money for the purposes of working capital? A. Yes.





Q. Is the Kyuquot Cooperative Association one of your members? A. Yes.

Q. I suppose their name appears? A. It does.

THE CHAIRMAN: That concludes the case?

MR. FRANCIS: Yes. I have one or two others that are ready to go on.

THE CHAIRMAN: Which will you take next?

MR. FRANCIS: The next in order is the Surrey Co-operative Association. Mr. Henry Bose will be called.

H. BOSE,  
President,  
Surrey Co-operative Association,  
having been duly sworn testified  
as follows:

---

BY MR. FRANCIS:

Q. You are president of the Surrey Cooperative Association? A. I am.

Q. The association carries on business at Cloverdale, British Columbia? A. Yes.

Q. For how many years have you been president? A. Since March 1923.

Q. How long have you been a member? A. I have been a director ever since its incorporation.

Q. When was that? A. In 1919.

Q. And you have been familiar with the history of the association from the beginning? A. Yes.

Q. Will you now present the brief?

(Mr. Bose submitted the brief as follows:)

"The Surrey Co-operative Association is a Consumer's cooperative and received its Certificate of Incorporation in 1919 to supply its members with the



goods they required at cost.

"During the year 1919 the Fraser Valley Milk Producers' Association, which was a young organization of Fraser Valley farmers marketing their dairy products cooperatively, realizing the high cost of feed to their members, gave aid to a number of its locals in the Fraser Valley by helping them financially in purchasing their feed requirements cooperatively at cost.

"The poultrymen, many of whom were also dairymen, realizing the tremendous savings effected by buying their dairy feeds cooperatively also had car loads of poultry grains bought in the same manner.

"The feed dealers of that time were taking tremendous profits on the feed requirements of the farmers. Savings of from twelve to fifteen dollars a ton were made when the feed requirements were bought cooperatively at cost.

"From 1919 to 1921 business was done out of the box car and with the financial help of the Fraser Valley Milk Producers' Association.

"In February, 1921, a small warehouse was leased and a small inventory of feed requirements was carried on hand. From this beginning to the present time when 1550 members rely on the Association to supply their requirements of feed, hardware and retail meat together with 600 cold storage lockers the basic principle of goods at cost on a cooperative basis has never changed.

"To buy goods at cost a customer must be a member.

"To become a member it was first necessary to buy four -- ten dollar shares or in other words to



invest forty dollars in the Co-operative Association. This was reduced to one -- ten dollar share at the annual meeting of February 13th, 1932, and was again changed to ten -- one dollar shares at the annual meeting of February 10th, 1934, and is still in effect.

"The shares of the association are called the capital stock and are divided into yearly issues. (All shares issued in any year are called the issue of that year.)

"Interest is paid in cash on all shares at the rate of 6 per cent per annum. The rate of interest was reduced from 8 per cent to 6 per cent in 1933.

"In order to supply the increasing membership with increasing services and goods a capital set up had to be, and was developed as follows.

"Goods and services are purchased on the open market at the best possible price and on a quality basis. These goods or services are sold to the membership at the cost plus a mark up of sufficient to cover handling costs, and 5 per cent to be applied to capital subscription, plus a sum to be put to reserve account.

"All charges against the business are included in handling costs such as wages, depreciation, interest on capital, delivery costs, power and insurance.

"After these charges, which are actually part of the costs of the goods, and the original purchase price of the goods or services are deducted from the price at which these goods and services were sold to the members, and the 5 per cent subscription to capital and reserve have been allocated, the overcharges are issued in shares.





"The amount put to subscription to capital account and the overcharges are issued to the members in shares on a patronage basis, and the amount put to reserve account is allocated to each member on a patronage basis, but he receives no interest on reserve.

"As the membership and business grows the subscription to capital account or the capital increases and as the capital increases beyond the needs of the Association it is necessary to either reduce the subscription to capital by lowering the mark up on goods, or to redeem some of the capital. It is the latter method that is followed by this cooperative. As the capital is increased beyond the needs of the Association an issue of shares is redeemed, or a year's subscription to capital and overcharges, plus new members original shares in the cooperative in that year.

"All the shares issued either by subscription to capital or new shares up to and including 1940 have been redeemed.

Shares issued in 1940 were redeemed on June 30th, 1944.  
Shares issued in 1939 were redeemed on August 31st, 1943.  
Shares issued in 1938 were redeemed on June 30th, 1942.  
Shares issued in 1937 were redeemed on June 30th, 1941.  
Shares issued in 1936 were redeemed on April 30th, 1940.

"This routine has been carried on for years, and as there is no set date for the shares to be redeemed, our capital can be controlled at the desired level.

"As the reserve fund increases beyond the requirements or beyond the amount required under the Co-operative Act of British Columbia it is redeemed.

"All outstanding reserve up to and including



reserve allocated on 1935 purchases was redeemed in 1940.

"On a member leaving the district or retiring from membership in the Association his total shares and reserve are paid out to him in cash.

"The Surrey Co-operative Association operates on a strictly cooperative basis, namely:

One member -- one vote

One price to all -- for large or small purchases.

Membership open to all classes, religions and races.

Limited interest on capital.

Benefits to members who use the Association on a basis of patronage and not on capital invested.

"The Association is managed by a board of ten directors who serve without remuneration and employ a manager and staff to operate the business.

"The Board of Directors is nominated and elected by the membership at the annual meeting and hold office for two years, five directors being elected each year.

"The policy of the Surrey Co-operative Association has been to supply its members with goods and services at a fair market price and at the end of each year pay back in shares and put to reserve (which is allocated to each member on a patronage basis) all of the over-charges which may have accrued over and above the cost plus handling charges. This policy does away with price cutting below the private business operating in the same area and makes it possible for private businesses to operate and make a profit.

"The Association is financed by the members through the subscription to capital that is added to the



original cost price, plus occasional bank loans, plus new members original purchase of new capital.

"The Association pays a limited rate of interest namely 6 per cent per annum which makes it possible for a member in need of money to transfer to another member, with the approval of the Board of Directors, some of his shares, which in no way changes the capital of the Association but does enable him to get some ready money if needed, and it is the member who transfers his shares that is really paying the interest (through his purchases) to his fellow member to whom he transferred his shares.

"In practice a member holds only the relative number of shares to the amount of his purchases through the Association so if no interest was paid, his capital subscription, which he receives in shares, would be greater by the amount of interest he now gets in cash. A member may not hold more than one thousand shares after which his entire overcharges are returned in cash.

"The Surrey Co-operative Association handles feeds, fertilizers, flour, cereals, coal, briquettes, farm and household supplies, hardware, brooders and brooder supplies, poultry fencing and supplies, meats and butter, and operates a 600 locker cold storage plant.

"A small percentage of non-members business is done on which no refund to the non-members is allowed but this is well within the allowable amount under the Income War Tax Act and is as follows for the past five years:-

|      |                                |
|------|--------------------------------|
| 1939 | 7.75 per cent of total sales,  |
| 1940 | 8.50 per cent of total sales,  |
| 1941 | 9.25 per cent of total sales,  |
| 1942 | 8.75 per cent of total sales,  |
| 1943 | 10.13 per cent of total sales. |





"The reserve account is recorded and allocated to each member on a patronage basis and if a member retires from membership his entire equity in the Association including the reserve is paid out to him. The entire reserve up to 1935 has been redeemed and all retired members have been paid in cash their share of the reserve since 1935 and to date.

"In 1941 \$181.66 was paid out of the reserve account to forty retiring members. In 1942 \$929.11 was paid out of the reserve account to forty-four retiring members. In 1943 \$269.48 was paid out of the reserve account to twenty-three retiring members.

"From the foregoing it is plain that the members of the Surrey Co-operative Association receive their goods and services at cost and no profit is incurred which would be liable for taxation.

"Copies of Balance Sheets for 1943 are tendered herewith together with copies of By-laws and Certificates of Incorporation.

"The following example is of a typical member's account who joined the Surrey Co-operative Association on March 27, 1929, by buying four -- ten dollar shares.

In 1929 his purchases amounted to \$908.64.

In 1930 he received or had allocated to him:-

Interest on his 1929 capital of \$40.00 - \$2.40,  
Through subscription to capital account on his 1929 purchases, shares amounting to \$50.00,

Had put to his account for reserve based on his 1929 purchases of \$8.57.

In 1930 his purchases amounted to \$1,313.08.

In 1931 he received or had allocated to him:-





Interest on his total 1930 capital of \$90.00 - \$7.20

Through subscription to capital account on his 1930 purchases, shares amounting to \$40.00,

Had put to his account for reserve based on his 1930 purchases \$1.08.

In 1931 his purchases amounted to \$783.20.

In 1932 he received or had allocated to him:-

Interest on his total 1931 capital of \$130.00 -  
\$10.40,

Through subscription to capital account on his 1931 purchases, shares amounting to \$60.00,

Had put to his account for reserve based on his 1931 purchases of \$3.17.

In 1932 his purchases amounted to \$481.51.

In 1933 he received or had allocated to him:-

Interest on his total 1932 capital of \$190.00 -  
\$15.20,

Through subscription to capital account on his 1932 purchases, shares amounting to \$20.00,

Had his 1930 subscription to capital shares of \$50.00 redeemed on April 30/33 together with interest to April 30th on redeemed shares of \$100.

In 1933 his purchases amounted to \$137.20.

In 1934 he received or had allocated to him:-

Interest on his total 1933 capital of \$160.00 -  
\$9.60,

Through subscription to capital account on his 1933 purchases, shares amounting to \$8.00,

In 1934 his purchases amounted to \$429.81.

In 1935 he received or had allocated to him:-

Interest on his total 1934 capital of \$168.00 -  
\$10.08,



Through subscription to capital account on his 1934 purchases, shares amounting to \$25.00,

Had put to his account for reserve based on his 1934 purchases \$3.70,

(As the reserve for 1933 and 1934 was so small it was added to 1935 and distributed in a lump sum to the members.)

Had his original purchase of \$40.00 worth of shares plus his 1931 subscription to capital of \$40.00 redeemed on June 30, 1935, together with interest to June 30th on redeemed shares of \$2.40.

In 1935 his purchases amounted to \$415.43.

In 1936 he received and had allocated to him:-

Interest on his total 1935 capital of \$113.00 -  
\$6.78,

Through subscription to capital account on his 1935 purchases, shares amounting to \$16.00,  
Had put to his account for reserve based on his 1935 purchases \$.66,

Had his 1932 subscription to capital shares of \$60.00 redeemed on August 31, 1936, together with interest to August 31st on redeemed shares of \$2.40.

In 1936 his purchases amounted to \$360.11.

In 1937 he received or had allocated to him:-

Interest on his total 1936 capital of \$69.00 -  
\$4.14,

Through subscription to capital account on his 1936 purchases, shares amounting to \$18.00,  
Had put to his account for reserve based on his 1936 purchases \$4.56.

In 1937 his purchases amounted to \$526.76.



In 1938 he received or had allocated to him:-

Interest on his total 1937 capital of \$87.00 -  
\$5.22,

Through subscription to capital account on  
his 1937 purchases, shares amounting to \$18.00,

Had put to his account for reserve based on  
his 1937 purchases \$.76,

Had his 1933 and 1934 subscription to capital  
shares of \$28.00 redeemed on August 30, 1938,  
together with interest to August 30th on re-  
deemed shares of \$1.12.

In 1938 his purchases amounted to \$787.42.

In 1939 he received or had allocated to him:-

Interest on his total 1938 capital of \$77.00 -  
\$4.62

Through subscription to capital account on his  
1938 purchases, shares amounting to \$31.00,

Had put to his account for reserve based on his  
1938 purchases \$2.15,

Had his 1935 subscription to capital shares of  
\$25.00 redeemed on August 30, 1939, together  
with interest to August 30 on redeemed shares  
of \$1.00.

In 1939 his purchases amounted to \$961.26.

In 1940 he received or had allocated to him:-

Interest on his total 1939 capital of \$83.00 -  
\$4.98,

Through subscription to capital account on  
his 1939 purchases, shares amounting to \$48.00,

Had put to his account for reserve based on  
his 1939 purchases \$17.88,

Had his 1936 subscription to capital shares of  
\$16.00 redeemed on April 30, 1940, together with





interest to April 30th on the redeemed shares of \$.32,

His reserve up to and including the amount allocated on his 1935 purchases was redeemed in 1940 amounting to \$17.18.

In 1940 his purchases amounted to \$1,375.97.

In 1941 he received or had allocated to him:-

Interest on his total 1940 capital of \$115.00 -  
\$6.90,

Through subscription to capital account on his 1940 purchases, shares amounting to \$82.00,

Had put to his account for reserve based on his 1940 purchases \$14.47,

Had his 1937 subscription to capital shares of \$18.00 redeemed on June 30, 1941, together with interest to June 30th on the redeemed shares of \$.54.

In 1941 his purchases amounted to \$1,880.41.

In 1942 he received or had allocated to him:-

Interest on his total 1941 capital of \$179.00 -  
\$10.74,

Through subscription to capital account on his 1941 purchases, shares amounting to \$112.00,

Had put to his account for reserve based on his 1941 purchases \$2.72,

Had his 1938 subscription to capital shares of \$18.00 redeemed on June 30, 1942, together with interest to June 30th on the redeemed shares of \$.54.

In 1942 his purchases amounted to \$2,556.54.

In 1943 he received or had allocated to him:-

Interest on his total 1942 capital of \$273.00 -  
\$16.38,



Through subscription to capital account on his 1942 purchases, shares amounting to \$153.00,

Had put to his account for reserve based on his 1942 purchases \$32.10,

Had his 1939 subscription to capital shares of \$31.00 redeemed on August 31, 1943, together with interest to August 31st on the redeemed shares of \$1.24.

In 1943 his purchases amounted to \$2,595.07.

In 1944 he received or had allocated to him:-

Interest on his total 1943 capital of \$395.00 -  
\$23.70,

Through subscription to capital account on his 1943 purchases, shares amounting to \$181.00,

Had put to his account for reserve based on his 1943 purchases \$56.85,

Had his 1940 subscription to capital shares of \$48.00 redeemed on June 30, 1944, together with interest to June 30th on the redeemed shares of \$1.44,

In 1944 the Association suffered a loss of \$8,000.00 which was taken from the reserve account so he had his reserve reduced by his share or \$22.98.

In 1944 his purchases amounted to \$2,558.63.

In 1945 he received interest on his total 1944 capital of \$528.00 - \$31.68.

"This is a complete record of this member's account from the time he joined in 1929 to date.

"During this period he has paid no more in the original price for his goods from his Association than if



he had purchased them from private businesses.

"He has received back his original investment of \$40.00.

He has received in cash, subscription to capital redeemed \$334.00.

He has received in interest \$182.02.

He has redeemed in cash reserve amounting to \$17.18.

He has still in the Association subscription to capital account \$528.00.

He has still in the reserve account \$108.51.

"He has made these savings and supplied his relative share of the capital to his purchases as have all other members.

#### S U M M A R Y

| <u>Subscription to<br/>Capital Account</u> |         | <u>Interest<br/>Rec'd in cash</u> | <u>Reserve</u> | <u>Purchases</u> |
|--|---------|-----------------------------------|----------------|------------------|
| Joined Mar.27/29                           | \$40.00 |                                   |                | \$ 908.63        |
| 1930 Issue                                 | 50.00   | 2.40                              | 8.57           | 1,313.08         |
| 1931 Issue                                 | 40.00   | 7.20                              | 1.08           | 783.20           |
| 1932 Issue                                 | 60.00   | 10.40                             | 3.17           | 481.51           |
| 1933 Issue                                 | 20.00   | 16.20                             |                | 137.20           |
| 1934 Issue                                 | 8.00    | 9.60                              |                | 429.81           |
| 1935 Issue                                 | 25.00   | 12.48                             | 3.70           | 415.43           |
| 1936 Issue                                 | 16.00   | 9.18                              | .66            | 360.11           |
| 1937 Issue                                 | 18.00   | 4.14                              | 4.56           | 526.76           |
| 1938 Issue                                 | 18.00   | 6.34                              | .76            | 787.42           |
| 1939 Issue                                 | 31.00   | 5.62                              | 2.15           | 961.26           |
| 1940 Issue                                 | 48.00   | 5.30                              | 17.88          | 1,375.97         |
| 1941 Issue                                 | 82.00   | 7.44                              | 14.47          | 1,880.41         |
| 1942                                       | 112.00  | 11.28                             | 2.72           | 2,556.54         |
| 1943 Issue                                 | 153.00  | 17.62                             | 32.10          | 2,595.07         |



Summary continued:

| <u>Subscription to<br/>Capital Account</u> |          | <u>Interest<br/>Rec'd in cash</u> | <u>Reserve</u> | <u>Purchases</u> |
|--|----------|-----------------------------------|----------------|------------------|
| 1944 Issue                                 | 181.00   | 25.14                             | 56.85          | 2,558.63         |
| 1945 Issue                                 |          | 31.68                             |                |                  |
| Total                                      | \$902.00 | \$182.02                          | \$148.67       |                  |
| Redeemed                                   | 374.00   |                                   | 17.18          |                  |
|  | \$528.00 | \$182.02                          | \$131.49       |                  |
| Loss 1944                                  |          |                                   | 22.98          |                  |
|  | \$528.00 | \$182.02                          | \$108.51       |                  |

Present Position -- \$528.00 in subscription to capital  
account.  
\$108.51 in reserve account."

.....

Documents filed with brief:

- (1) Balance Sheet Surrey Co-operative Association - as at December 31st, 1943.
- (2) Pamphlet - Constitution and By-Laws - Surrey Co-operative Association
- (3) Certificate of Incorporation.

.....

MR. FRANCIS: I would point out, Mr. Chairman, that on pages 6, 7, 8, 9 and 10 there is a very detailed history of the exact benefits derived by an individual member of this association, but for the benefit of the Commission it has all been summarized on page 11. I wish to mention that at this point. Without wasting time, the





Commission can decide which it would prefer to hear read. We thought it would be of value to the Commission to have the story of one of the members trading with the association during the past fifteen years.

THE CHAIRMAN: Has this been compiled by the gentleman in the box?

MR. FRANCIS: It was compiled under his supervision.

THE WITNESS: It was compiled by the manager under my instructions.

MR. PARKER: It can be taken as read.

MR. FRANCIS: Perhaps the table would be sufficient.

THE CHAIRMAN: Will you be here this afternoon?

THE WITNESS: Yes.

THE CHAIRMAN: It might be necessary for Mr. Parker to have a look at it before proceeding with his examination of the witness.

THE WITNESS: At page 11 we are rearranging it slightly and will give you new copies of page 11, which will make it a little easier to get the picture. I may say that I was astonished, when I got this prepared, to see how it shows the ups and downs of the economic life of the farming community. I have figures showing the business we did in all the different years, and how they coincide with the economic difficulties which the farming community passes through in the years 1931, 1932, 1933 and onwards. It is very interesting to see how it stacks up.

THE CHAIRMAN: We had better pass that for the moment, I think.

BY MR. FRANCIS:

Q. You have already stated, Mr. Bose, that for



more than twenty years you have been president, and you have lived in the community for how long? A. Fifty-five years, next June.

Q. You have been Police Magistrate for a long time? A. I got my commission in 1911.

Q. As a citizen of long standing you have taken an interest in the welfare of the community? A. In the economic welfare of the community.

Q. From your personal observations, would you care to give us your opinion of the benefits or otherwise derived from the operation of this association in the past twenty-five years? A. The cooperative principle is one of the greatest things to improve the economic status of the man on the farm.

Q. I think you are the only witness we are calling who has had such long residence in the province and such a long experience with cooperative companies, and I think your opinion would be of great interest to the Commission. Will you please develop it? A. You can see from the growth the great need of cooperation among agricultural communities. The agricultural community has to buy large quantities of supplies and we manufacture those supplies in butter, eggs and poultry products and hogs and have to sell on, you might say, a wholesale market. We have been buying retail and we have to sell our products wholesale. We figured we had to gather together and buy our products wholesale too, and the growth in quantity of the commodities we have handled for our members shows the absolute necessity of the farmers doing this work cooperatively.

I will not go back to the start, but I will give



illustrations. In 1929 our total sales were \$469,000 in round figures and in 1930 \$484,000. In 1931 we struck the depression and it was \$330,000 odd; in 1932, \$258,000; in 1933, \$236,000; in 1934, \$308,000, and we go up then. In 1942 it was \$687,000; in 1943, \$1,006,000, and last year we did \$1,360,000 and the tonnage last year was no less than 31,111 tons.

THE CHAIRMAN: To what do you attribute the great increase in the last two years?

THE WITNESS: It was the policy of the Dominion government, asking the farmers to produce more eggs, butter, pork, and so forth, and campaigns were put on to encourage that. The farmers in my district responded, as is shown in these figures. We have more than doubled consumption commodities. As an illustration, I may say that in 1942 there were only from two to three thousand cases of eggs sold to the produce buyer for exportation to Great Britain. Last year we produced and sold in British Columbia, after feeding our own people, 170,000 cases of eggs, and I consider that we are one of the factors that make this possible. Our figures of tonnage and the materials we have handled and what our members buy from us show that we have helped the war effort.

BY MR. PARKER:

Q. This brief that you have read was compiled under your supervision and in collaboration with your manager? A. And staff.

Q. You have knowledge of the facts? Speaking generally, are you prepared to vouch for the accuracy of it? A. I can vouch for the accuracy of the information.

Q. You have every reason to believe it is accurate and reliable in every respect? A. Yes.





Q. Turn for a moment to page 2 of the brief.

I understand yours is a consumer cooperative? A. Yes.

Q. Entirely? A. Entirely at present.

Q. Has it always been consumer from its inception? A. Yes.

Q. It does not market producers products at all? A. No.

Q. What induced the birth of this organization?

What was the economic condition that made it desirable to form the association? A. I state that on page 1. In the last war, prices for our products went a lot higher than they had been -- tremendously greater -- and our feeds went up. Then when the war was over they slumped and feed houses did not meet those conditions and we thought it advisable, with the assistance of Fraser Valley Milk Producers Association, through their locals, to ship carloads of feed and we distributed right from the cars to our people.

Q. It was due to the general economic conditions that you thought you could better yourselves through this method of operation. Is that a fair way of putting it? A. Yes.

Q. Coming to page 2 of the brief, about the middle of the page, you state that when all charges against the business are included in handling costs, such as wages, depreciation and so on -- you enumerate them -- after all these charges, that is to say, all your operating charges -- A. In our by-law we add 5 per cent towards capital construction.

Q. These charges are actually part of the cost of the goods? A. Yes.



Q. "And the original purchase price of goods or services." What services do you purchase? You purchase goods only; what services do you purchase? What do you mean by that? A. When a man goes to a cold storage locker and takes in a hog he has to pay a cent and a half a pound for cutting it up and double-wrapping it and putting it into the lockers. That is service.

Q. And the commodities that your association handles, you go out in the first instance and purchase them? A. Not in the locker system. A man can take in his own beef or hogs.

Q. I am talking from the consumer standpoint. You purchase a large quantity of goods in the course of the year, wherever you think you can buy to the greatest advantage? A. Yes.

Q. And pay for them? A. Pay cash.

Q. Cash which you have obtained by the issuing of shares? A. Issuing shares to members.

Q. And when you purchase these goods you become the owner, that is, the association. They are your goods? A. I suppose, as a local incorporated body you can say that. But we are really purchasing them in trust for our members.

Q. The same as any company purchases with the idea of selling to the general public, you purchase with the idea of selling to your members. With that difference only, they are the same otherwise? A. They are purchasing under instructions to supply them all the time.

Q. And you pay for them out of capital raised by issuing shares, and you sell them over the counter, or



through whatever channel it may be, at the going price more or less, equal to what other dealers sell the same commodities for? A. We don't try to cut prices. Some claim we do but we don't.

Q. You have so stated in your brief. You sell at the going price. A. Correct.

Q. But at the end of the year, when you have a surplus on hand which you do not pay back to them in cash, you issue additional shares to cover that? A. Correct.

Q. Do you know what a stock dividend is, dealing with the ordinary limited company? A. Yes.

Q. What is the fundamental difference between an ordinary stock dividend issued by an ordinary joint stock company and the shares which you issue to members? A. There is a lot of difference?

Q. Let us have it. A. The difference is this. Those shares cannot be transferred without the consent of the Board of Directors. They cannot be used for collateral except in their own organization. They can't take them to the bank and get a loan on our shares.

Q. What prohibits it? A. Our rules. We have the first lien on those shares. You cannot sell them on the open market.

Q. Are there any other differences? A. That is the fundamental difference.

BY MR. ELLIOTT:

Q. You distribute these shares in proportion to the business done by the member and not in proportion to the number of shares held? A. Oh, no. The principle is this. A man, in order to get possession of our shares, must give us his business. If he does not give his business





he does not get the shares.

Q. I understand that.

BY MR. PARKER:

Q. When the shareholder in a private company, an ordinary joint stock company, undertakes to dispose of shares, they can only be transferred on the books of the company with the consent of the officials of the company. A. I don't know about that. They seem to go on the stock market every day according to the papers. On the other hand, ours cannot go on the stock market.

Q. They can only be sold with the approval of the directors. A. Yes.

Q. You say the directors only approve if they are to be transferred to another member, or to an incoming member? A. To another member, a new member, they might be transferred.

Q. Apart from that the directors would not approve of the transfer. A. No.

Q. Upon the death of a member what happens? A. To whomever is entitled, or to the estate, we pay back in cash and pay the reserve and everything.

Q. Just deal with the shares. Upon death, the shares are redeemed by the company and the price paid to the estate? A. Correct.

Q. And these shares are outstanding four years. A. Four or five years. We have redeemed the 1940 shares.

Q. What is the difference between redeeming these shares after they have been outstanding four or five years and the redeeming of ordinary shares in an ordinary company? What is the difference in assets? Do you follow me?

A. I don't quite.





Q. What is the fundamental difference between an association redeeming its issue shares, as you say you do, and an ordinary joint stock company if incorporated on the basis where it can under certain circumstances redeem its shares? A. We create new shares every day or as soon as we have more capital than we need. We redeem the oldest outstanding. We have no sleeping partners. All members must be active and when they cease to be active they fade out of the picture.

Q. And as to what you call shares representing the surplus, which I liken unto stock dividend shares, the amount is determined on a patronage basis? A. Yes.

Q. By that you mean according to the number of dollars' worth of business purchased from the company during the period? A. Yes.

Q. Does it make any difference what measuring rod you use to see how many shares a man will get, whether it is according to the amount of business he does or whether it is the number of dollars he has invested? He may get more by one measuring rod and less by another; but what is the difference -- the fundamental difference? A. If he can only learn shares by the amount of business he does -- and he knows when he joins us that he has to sign a declaration that he will abide by the rules and regularions -- he knows that when he spends a dollar he buys a nickel's worth of new shares.

Q. Take an ordinary limited company who might adopt the policy that they would sell goods only to their own members. Suppose they did that over a period of years, and at the end of any year made \$10,000 profit. Suppose they had authority to pay that out not in proportion to the number of shares of capital which the



member had, but according to the number of dollars worth of business which he had done with the company, would that make it a cooperative? A. That is pretty hard to answer. It would not fit into our scheme. If the company were organized as a joint stock company it would not fit into this.

Q. Does it make any difference what label you give an institution? What counts is the inner working of it. A. We are governed by the British Columbia Co-operative Act and the Dominion Government Income Tax Act. That is what we have to be governed by.

Q. You do not want to answer the question? A. I would not like to answer anything connected with joint stock companies. I am not here to answer with respect to joint stock companies. They may have a viewpoint on that matter but I would not like to express it for them.

Q. Turn to page three for a moment. Just after that set of figures you say that, as the reserve fund increases beyond the requirements, or beyond the amount required under the Act, it is redeemed. What do you mean by redeeming the reserve? A. Under the British Columbia Co-operative Act we have to carry on a reserve in a certain proportion.

Q. I understand that. A. If we own \$100,000 we must have 10 per cent in reserve. We have always carried all the reserves which the Act called for. From time to time we put more money to the reserve and on two occasions we have paid all the reserve out to a certain date.

Q. When you get more reserve than the statute



required? A. We give it back to the members.

Q. It is simply paid back? A. Paid back in cash.

Q. You do not give the word the same meaning as you give the word redeemed when you talk about redeeming shares. A. It is a different thing. The shares they are paying interest on and the reserve carries no interest.

Q. Further down you say that the Surrey Co-operative Association operates on a strictly cooperative basis. What you mean is that what makes it cooperative, the thing that really distinguishes it from an ordinary company, is the fact that you pay these surpluses back. A. Back to the man who should get it.

Q. In proportion to patronage instead of in proportion to the amount of share capital that he has. A. Yes.

Q. In a word, is that the difference between the two? A. Yes.

Q. They buy goods and sell them and issue share capital, pay handling charges and insurance, and when they get through they have something left over, and in one case they distribute according to share capital while in the other case it is according to business done. Is that a fair way of summarizing it? A. I suppose so.

THE CHAIRMAN: That would be the essential difference between the two forms of organization?

THE WITNESS: Yes.

BY MR. PARKER:

Q. In your association the principle is one member one vote. A. Yes.

Q. There is no proxy vote? A. No. They all





come to the annual meeting.

Q. You are familiar with the principles of the Rochdale plan? A. We have read about it.

Q. Do you model yours after it? A. To a certain extent.

Q. I understand it is one of the fundamental principles of that plan that there should be no proxy voting. A. We have none in practice.

Q. If you had, would it make the organization less cooperative? A. I would not like to argue that. We do not like proxy voting; we like people to come to the meetings themselves and decide their own policy.

Q. I understand that in a great many associations proxy voting is prohibited, while some permit it. Does it make any difference in effect, or does it not? A. We don't have proxy voting.

Q. We come now to page 4, the second paragraph, referring to the policy of the association, where it is said that this policy has been to supply members with goods and services at a fair market price. You pay for them and sell to them and later on they get a benefit because they did business with you; and at the end of each year you pay back in shares and pay the reserve which is allocated to each member on a patronage basis, all of the overcharges. Why do you call them overcharges and not say surplus from operations? Is there any particular virtue in using the word overcharges? Would not "surplus" or "profits" answer the purpose as well?

A. When you do \$1,350,000 worth of business in all kinds of commodities it is impossible to cut the price structure that close, that neat, that there would not be a fraction



over, and we have to do something with these accumulations of overcharges.

Q. They are profits? A. No, they are not profits.

Q. Are they surpluses? A. They belong to the members. They are services.

Q. Belonging to whom? A. To the members.

THE CHAIRMAN: They are margins of safety?

THE WITNESS: It is a margin of safety we all have to have; otherwise we would not be in existence.

BY MR. PARKER:

Q. You say that this policy does away with price cutting below the private business operating in the same area and makes it possible for private business to operate and make a profit. Do you not think that the members, fully realizing that if at the end of the year they have done business with your association they will get something back, whereas if they have done business with non-cooperatives they will not, will naturally find in this a strong inducement to do business with you rather than with your competitor? A. I may state here --

Q. Please answer the question. A. A man joins our organization of his free will, and --

Q. Will you answer the question.

MR. FRANCIS: Should he not be allowed to answer the question in his own way?

THE WITNESS: We have no men in the field to ask people to join our organization. They all come in of their own free will and say they would like to join. We have no field men because people all voluntarily come to our organization and give their orders.



BY MR. PARKER:

Q. Is that your answer? A. Partly.

Q. Well, give us the rest of it. A. Now we all know that when you join a cooperative organization your object is to save a certain amount of money by buying cooperatively, and that is the only difference between us and private commercial institutions.

Q. I am directing my question to the idea of competition. Does not the very fact of doing business the way your company is doing business indicate, is it not obvious, that there is a very great inducement for a man to become a member of your association and get the benefits on all these shares that are paid back at the end of the year, rather than go to the non-cooperative store around the corner where he gets none of these benefits?

A. Each man makes his own decision.

Q. If the question is unfair I will withdraw it, or if it is a question that you cannot or do not care to answer. A. It is not a question of not caring to answer. A man makes his own decision whether he wants to do business cooperatively or through a private corporation.

Q. It is still a free country? A. Yes.

BY MR. ARNASON:

Q. It is a matter of a man's judgement?

A. Yes. We don't ask any man to join.

BY MR. PARKER:

Q. Have you a copy of the balance sheet in front of you? A. Oh yes.

Q. This is for 1943. I see stock on hand, feed, \$56,000. A. Correct.

Q. That represents feed which the association



bought out of share capital, money on hand, for resale.

A. I have it.

Q. That is what it is. A. Yes.

Q. I see there is cash on hand in the bank \$67,000. Is that apart from reserves? A. That is the wrong item.

Q. I beg your pardon; it is the next item, cash on hand \$26,000 odd. Is that cash over and above reserves? A. Yes. The reserve is not cash in the bank; it is used in the business. That reserve may be in that inventory.

Q. It is used for your working capital, but this is just cash? A. Cash in the bank.

Q. The companies' cash? A. The associations' cash.

Q. Then I see you have Victory Bonds, \$60,000. A. Yes.

Q. Does that represent reserves? A. Part of the reserves may be in that.

Q. Were they bought out of funds allocated first to reserves? A. No. They were bought out of cash we had on hand.

Q. Before it was allocated to reserves. A. No.

Q. Why did you not pay all this money back to the members? Did they not want it? A. I tell you, if we had to pay all the money back there would be hardly any organization.

Q. In addition to the inventory you have \$60,000 investment. A. At the present time we have \$100,000.

Q. Accounts receivable. You do sell on credit to members? A. No, a man should pay.

Q. Do you sell on credit as a matter of fact? A. He can get credit up to 50 per cent of the share





capital.

Q. That is credit? A. Yes.

Q. Otherwise it is cash. A. Yes.

Q. Following that policy, you do have accounts receivable to the extent of \$15,000 odd? A. Yes.

Q. Then you have an outstanding claim against the Dominion Government. What is that? I don't want to go into your private affairs. A. There is fifteen dollars and odd cents on every ton of wheat that goes from the prairies and we have to put claims in every so often. On every carload of wheat the Dominion Government puts up freight and it comes to \$15.40 a ton. That is money the Dominion Government owes us towards the wheat bonus and paying the freight on these cars.

Q. This association gets a Government bonus?

A. They all do.

Q. You get it the same as anybody else? A. Yes, sure. We get anything that is coming to us.

Q. Then you have a whole list of fixed assets -- office building, hardware building, workshops, trucks and so on, totalling around \$65,000? A. That is book value.

Q. That has been purchased over the years and has grown out of surpluses? A. Out of money which people subscribe every time they spend a dollar with us.

Q. They subscribe originally, to begin with, and secondly they subscribe to new shares out of money coming to them? A. Yes.

Q. So that today you have \$261,310.96 worth of assets? A. Yes.

MR. PARKER: This, Mr. Chairman, is a subject which in a sense one could pursue more or less indefinitely and I



must use my best judgment in deciding what questions I shall ask which I think will be helpful. It is just possible that I may waste your time on some points.

THE CHAIRMAN: At adjournment you might confer with counsel to see if there is any way in which we can move rather expeditiously, because we do not want to leave more cases unheard than we can help.

MR. PARKER: I hope you will stop me, Mr. Chairman, if you think it necessary and take on the examination yourself if I am not helpful.

THE CHAIRMAN: Will you confer with counsel at the adjournment.

MR. PARKER: Yes.

BY MR. NADEAU:

Q. Would it be possible for us to have a statement of expenses and revenue to supplement your balance sheet? A. Do you wish to have a complete statement as to what it costs per ton for delivery services, etc.?

Q. A general statement of revenue and expenditures to supplement your balance sheet. A. If I knew exactly what you wished, I would get it for you. I will go to our office and take copies of our records.

THE CHAIRMAN: Would a statement showing operating expenses and revenue be useful to you, Mr. Keay?

MR. KEAY: Yes.

THE WITNESS: I have a summary.

THE CHAIRMAN: You might confer with Mr. Keay.

THE WITNESS: I can give a few figures I have here.

MR. NADEAU: I do not think that would be useful for our purpose.



MR. FRANCIS: I suggest it would be better to defer that aspect of the matter and put in a proper statement. There is one point which I would like to take up with the witness.

BY MR. FRANCIS:

Q. My learned friend put this question to you:

"In a word, is the essential difference between your company and a joint stock company the method of distribution"? I believe you answered yes. In your brief on page three you set out five characteristics -- one member one vote, one price to all, membership open to all classes, and so on. Do you regard all these characteristics as important to a cooperative? A. That is correct.

Q. Another essential difference is that in a joint stock company each shareholder has one vote? A. For each share, sure.

Q. But in your association each member has one vote irrespective of the number of shares. Is that an essential difference? A. Yes.

Q. Is it an essential difference that you limit interest on capital? A. Yes.

Q. Is it an essential difference that you treat everybody the same -- one price to all? A. Yes.

Q. Are there other essential differences?

A. Quite a difference in our principle. We charge a man the same for a small quantity as if he bought a carload.

Q. In your association you can buy your shares from your members at will? A. Yes.

Q. You probably know that the general rule in a joint stock company is that the company cannot buy its shares?

A. I won't talk about joint stock companies.





Q. The point is that there are several essential differences and I do not think you quite understood the question put, that the only essential difference is the method of distribution, whereas the brief sets out five essential differences. I want to emphasize that.

A. Yes.

BY MR. PARKER:

Q. One of the five which my learned friend has just referred to is that membership is open to all classes, religions and races. Do you know of any rule governing any joint stock company that makes a difference between classes, religions and races? A. I am not speaking for joint stock companies.

Q. You don't know of any? A. No.

BY MR. NADEAU:

Q. Did you ever file income tax returns? A. Yes.

THE CHAIRMAN: For the association?

THE WITNESS: Yes.

BY MR. NADEAU:

Q. Did you ever pay taxes? A. Not to the Dominion government. We used to pay a little taxes to the provincial government.

Q. Income taxes? A. Income taxes -- a small amount.

Q. Never to the Dominion government? A. No.

BY MR. VAUGHAN:

Q. There are several differences pointed out, but we can get it down to one main difference. What is the most important difference between cooperatives and joint stock companies? A. A cooperative tries to improve the economic welfare of the individual; a stock company tries



to make a profit out of the individual. Have you got it?

BY MR. ELLIOTT:

Q. On page 2 of your brief, with regard to the price policy of your association, you say that as the membership and the business grow your capital increases, and as the capital increases beyond the needs of the association it is necessary either to reduce subscription to capital by lowering the mark-up on goods, or to redeem some capital. You state later that you have generally charged the market price instead of reducing the mark-up on your goods?

A. Yes.

Q. You suggest that that enables competitive producers to charge similar prices. Is that the only reason why you pursue that policy, or have you other reasons?

A. We believe in the revolving capital system. As new men come in and do business with us, when they first come in they have not sufficient capital to take care of their business and it has to be taken care of. After they have been there a few years they have enough capital of their own to take care of their business.

Q. If you lowered your mark-up, that fund would not revolve quite as often? A. No.

Q. Is it essential to the purposes of your association that the fund should revolve in four years, or might it be in three years or five years? A. It will revolve according to the success of our business operations. We might have conditions such that we might not redeem any shares for one year. Those conditions might arise.

Q. Then it is not essential that your capital should revolve in four years? It would do if it were five? A. It might have been even six.



Q. It would be possible for you to change your mark-up and charge a price which was a little lower than the prevailing price or even a little higher? A. If we decided on a new policy and did away with the revolving policy and reduced the mark-up so that we could carry on, it would be tough on the commercial institutions.

Q. I am not asking about that at the moment.

A. Well, that is what it amounts to.

Q. Would it be possible for you to fulfil the purposes of your association and at the same time adopt that policy of reducing the mark-up? A. Yes; it could be done.

Q. And if the Dominion government were to insist that the payments you received -- what you consider to be surplus, these excess payments -- if the Dominion government were to insist that these were subject to taxation, you could in practice achieve the main purposes of your association and still charge lower prices so as not to be subject to that taxation? A. We could charge lower prices and disorganize the whole commercial feed business and pay very little income tax.

Q. And you don't want to do that? A. We don't want to do that.

BY MR. TUPPER:

Q. I think you will agree that the egg supplies a large part of the farmer's income in the Fraser Valley?

A. Speaking for myself, milk is my largest income, potatoes next, and eggs number three.

Q. But eggs are important? A. Eggs are important in the whole organization.

Q. Do you buy eggs from your members? A. No.





Q. Why? A. They haven't asked us to go into the egg business.

Q. I put that question for this reason: The feed companies have for the last few years bought a considerable amount of eggs from farmers in the Fraser Valley. Later I will make this point -- that your cooperatives deal in articles which can be marketed without risk safely, and bought without much difficulty, and that you are leaving to private trading companies business of a speculative nature in eggs, which vary in price. You are leaving to them the kind of business which requires big plant to carry on. Have you anything to say in answer to that?

A. At the present time there is no speculation in eggs.

Q. That is your opinion? A. Yes; correct.

Q. You disagree that there is need of substantial investment before you can handle eggs efficiently?

A. You need money for everything. If we had to go into eggs we would have to get hold of capital.

Q. You do not think it is a speculative business?

A. Not at the present time; not since the government buys the surplus.

Q. You can get rid of them easily enough, but is not the price still speculative? A. No.

Q. My instructions are to the contrary. A. As long as we have more eggs than the local market requires we can supply the local market and the surplus of eggs at one price to the Dominion government.

Q. It is all going to the United Kingdom now at a price fixed from time to time? A. There is a little variation but you don't gamble on it at all.

BY MR. FRANCIS:





Q. Just one more question. This is the constitution and by-laws of the association? A. Yes.

Q. The object clause is section 3. The objects for which the association is formed are to carry on the business of storekeeper in all its branches and in particular to buy, sell, manufacture and deal in various commodities and articles enumerated? A. Yes.

Q. You are a cooperative? A. Yes.

Q. And you abide by your rules? A. Yes.

BY MR. ARNASON:

Q. One or two short questions. When you refer to the advantages which accrue to your community as a result of the operations of the association over a period of years, would you say that the two main advantages had been, first, that it had facilitated the securing of necessary supplies by your members, and second, that the other economic benefits arising from the distribution of overcharges, that is after costs, were definitely ascertained? A. Yes, sure.

Q. You agree with that? A. Yes.

Q. Coming back to the question in which considerable interest has been displayed this morning, that is, the difference between a cooperative and a joint stock company: would you say that one difference, possibly the most fundamental difference, was that in a cooperative any surpluses accruing are distributed among the members in proportion to the use they make of the organization rather than in proportion to investment? A. Yes. It is on the basis of patronage.

Q. I just wanted to establish that point.

A. That is correct.



THE CHAIRMAN: It is ten minutes before the time for adjournment. I think we might rise now, and in the meantime Counsel might get together and try to map out the procedure for the next day or two.

The Commission rose at 12.20 p. m., to resume at 2 o'clock.

.....

The Commission resumed at 2 p. m.

MR. PARKER: During the recess I have consulted with Counsel and, subject to your approval, I suggest that instead of having Mr. Francis continue with his string of associations it might be better to get a cross-section of the whole picture. If it sonciseder advisable to deviate from that course, I suggest that we take up the Fraser Valley brief, which is entirely a producer cooperative, following which Senator Farris could make a presentation from the other side.

THE CHAIRMAN: That is a very fair way of dealing with the matter. If Counsel and others concerned are willing, we could perhaps open the sessions tomorrow at nine o'clock -- we have a good deal of business to get through -- ona continue until a late hour. We shall know then how many cases are left. Will that be agreeable?

MR. FRANCIS: It is agreeable to my group.

MR. PARKER: In reference to Counsel making oral arguments at the conclusion of the hearing, inasmuch as it is obvious that we are cramped for time, I have suggested that, if opportunity offers, Counsel will be allowed to address the Commission by summing up arguments, failing which I have suggested that the Commission accord them an



opportunity of filing written arguments.

THE CHAIRMAN: What, in Quebec, we would call a factum.

MR. PARKER: Yes. Those gentlemen to whom I have had an opportunity of speaking about the matter think that is satisfactory. Those who have any objection might speak now.

THE CHAIRMAN: I am afraid we are more or less driven to that course; that if Counsel propose to extend their arguments orally we shall be here much longer than we contemplate.

MR. FRANCIS: I presume, if arguments are filed with the Commission, copies will be available to all Counsel?

THE CHAIRMAN: Undoubtedly. Shall we proceed with the Fraser Valley.

W. L. MACKEN,  
President,  
Fraser Valley Milk  
Producers Association,  
having been duly sworn  
testified as follows:

BY MR. PARKER:

Q. Before you proceed to read your brief, Mr. Macken, will you be good enough to answer a few general questions. You are appearing in what capacity on behalf of the Fraser Valley association? A. As president.

Q. How long have you been president?

A. Ten years.

Q. Prior to that were you associated with the company? A. Since 1923 as a director.

Q. And prior to that were you interested in the cooperative movement? A. That was the beginning.





Q. You have spent the time since in this movement in various capacities? A. Only in the capacity as director from 1923 to 1934 and then in the capacity of president.

Q. You have other interests? A. Yes.

Q. It is not a full-time job? A. My presidency at the moment is, yes.

THE CHAIRMAN: I do not want to restrict you in any way, but are there any points in the brief which you might safely omit?

THE WITNESS: I would like to omit the reading of all of it, Mr. Chairman, if that would meet the pleasure of the Commission. The brief has been prepared with the thought that you wanted a factual statement. I have confined myself to facts which are capable of proof by the records. I have not indulged in argument or theory or ideology. Had I known I would have to read the brief I would have been less ambitious in its preparation.

THE CHAIRMAN: If there are points that are purely formal perhaps you could omit them.

MR. PARKER: I understand that Senator Farris is representing interests which are, I will not say opposed to this, but on the other side of the question. If Mr. Macken had an extra copy of his brief to give him, it would furnish all the information required, and certain paragraphs could be omitted.

THE WITNESS: I am sorry I have not another copy, but I will read anything that may be of interest to Senator Farris.

THE CHAIRMAN: Perhaps you could summarize the paragraphs.



THE WITNESS: (Reading)

"Fraser Valley Milk Producers' Association

"What It Is.

"This Association is composed of dairy farmers residing in that part of the province of British Columbia known as the Lower Fraser Valley. This Valley extends inland from the west coast of the Lower Mainland of British Columbia a distance of approximately one hundred miles. It is bounded on the west by the Gulf of Georgia; on the south by the State of Washington, U.S.A.; on the east and north by mountains of the Coast Range. The Fraser River flows lengthwise down the Valley. The Canadian Pacific Railway is located on the north side of the river; the Canadian National Railway on the south side and the British Columbia Electric Railway connects the city of Chilliwack in the upper part of the Valley with the coast cities of New Westminster and Vancouver. The Trans-Canada highway passes through the Valley from the coast.

"The Lower Fraser Valley is the milk-shed of the coast cities of New Westminster and Greater Vancouver. From it considerable milk is also shipped by the Association to the cities of Victoria and Nanaimo on Vancouver Island.

"Charter.

"Granted June 18th, 1913, by province of British Columbia by authority of Agricultural Associations Act 1911, Part III. This Act was later repealed and replaced by the present Co-operative Associations Act, being Chapter 53, R. S. 1924, c.48, s.1., under which the Association is now governed.

SCHEDULE "A"

MEMORANDUM OF ASSOCIATION

SCHEDULE "B"

... ..  
... ..  
... ..

... ..

... ..

... ..  
... ..  
... ..  
... ..

... ..  
... ..  
... ..  
... ..

... ..  
... ..  
... ..  
... ..

... ..  
... ..  
... ..  
... ..

... ..  
... ..  
... ..  
... ..

... ..  
... ..  
... ..  
... ..

... ..  
... ..  
... ..  
... ..

BY-LAWS OF ASSOCIATION.

## SCHEDULE "C"

"Reason For."

"Prior to the creation of the Association, facilities for marketing milk produced in the Lower Fraser Valley, either in fluid or manufactured form, were very meagre and quite inadequate to the need. Dairy farmers living close to the urban areas of New Westminster and Vancouver depended upon a few milk dealers in these centres to take such of their milk as these dealers had a market for, or 'peddled' it themselves. During the spring and summer months these farmers would have a small surplus to the fluid market's requirements which they would have to dispose of as well as they could, often wasting it. But during the winter months their production was less than the fluid market required and consumers either went short or had to be satisfied with milk reconstituted from manufactured dairy products and city water. Dairy farmers in the more remote sections of the Valley, lacking access to the markets of the coast cities, depended upon their individual efforts and the odd small creamery to get their milk converted into cash or kind.

"The general result of this rather nondescript marketing system was most discouraging to the dairy farming industry. The Lower Fraser Valley, however, is particularly suited to dairy farming, and despite the handicap imposed by this marketing system the production of milk in the area steadily increased.

"In the year 1910 the British Columbia Electric Railway Co. Ltd. completed its interurban line to Chilliwack. For years prior to this event dairy farmers in the Chilliwack Valley had been marketing their milk





in the form of butter. Fluid market values were much higher than butter values, hence, as soon as daily transportation was established the Chilliwack area commenced shipping milk to the coast cities. The supply for the fluid market soon exceeded the demand the year round and city dealers, taking advantage of this situation, played dairy farmers in the upper part of the milk-shed against dairy farmers in the lower sections with resultant lower prices to both.

"It soon became apparent to leading dairy farmers in different parts of the Valley that this producer competition would ruin the industry and conferences were held to devise ways and means of correcting the condition. These conferences resulted in the decision to form a producers' cooperative marketing organization that would be capable of handling all the milk produced in the Valley, that would supply the fluid market with its milk requirements at a price fair to producers and in keeping with what consumers were able to pay, and would manufacture such of the area's production as could not be absorbed by the fluid market into readily marketable dairy products. Thus was formed the FRASER VALLEY MILK PRODUCERS' ASSOCIATION. The decision of the founders was expressed in the following extract from the Memorandum of Association:

"BE IT THEREFORE RESOLVED that we form an Association with sufficient capital to sell our milk and cream through our own institution for mutual advantage and not for profit and hereby adopt the following articles of incorporation."

"Date of Commencement.

"Due to difficulties in getting dairy farmers to





put up the necessary capital with which to get started. active business was not commenced until the year 1917.

"Purpose of Association.

"The sole purpose of the Association is to obtain for its members the maximum returns out of available markets for the milk consigned by them to it.

"Scope of Operations.

"To this end the Association owns and operates:-

(a) A utility plant at Sardis in the Chilliwack district, equipped to manufacture butter, ice cream, cheddar cheese, cottage cheese, milk powder (whole and skim), casein and semi-solids. A quantity of milk for local fluid trade is also pasteurized and bottled at this plant. During the flush production period of 1944 this plant received and dealt with as high as 350,00 lbs. of milk daily.

(b) A milk evaporating plant at Abbotsford (situated about 40 miles from Vancouver) equipped to manufacture 180,000 lbs. of raw milk into 1,800 cases of Canadian standard evaporated milk daily.

(c) A plant in Vancouver in which the Association pasteurizes and bottles over 150,000 lbs. of milk daily which it distributes to homes, stores, hotels, cafes and other consumers of milk, cream and dairy products, by its own trucks and horse-drawn vehicles. One hundred and twenty retail routes and twenty wholesale routes are directed from this plant. Through this plant the Association can also supply 100,000 lbs. of raw milk in bulk daily to other milk distributors operating in Vancouver and Victoria. A churning department in the Vancouver plant takes care of milk and cream that is brought into the



city but not disposed of on the fluid market. From this plant is also directed the sale of butter and other products manufactured in the country plants. The Association's head office is located here.

(d) A combination ice cream and ice manufacturing plant is also located in Vancouver where ice cream is manufactured out of Association products and ice for its requirements is made.

"Membership.

"Rule Two of the Association reads in part:

'Any person over the age of sixteen years may be admitted to membership, providing that he is a resident of the Fraser Valley, west of Yale, a producer of milk, and a subscriber for at least ten shares of the capital stock and executes an agreement in the form referred to in paragraph 2A hereof.'

"Membership Contract.

SCHEDULE "D"

"Membership Control."

"Every member in good standing under the Rules of the Association and the Co-operative Associations Act is entitled to one vote at annual or special general meetings regardless of amount of stock held.

"The Association is directed by a Board of seven Directors all of whom are active shippers of milk. Four vacancies occur on the Board each year. Voting for directors is by ballot and polling places are set up throughout the Fraser Valley to enable all members to cast their vote. Each member must vote for four nominees. The three candidates receiving the most votes are elected for a two-



year term with the next in order elected for one year. This makes possible a change of Board control every year should the members desire.

"Membership Meetings.

"Members meet in annual general meeting early each year. The meeting is a two-day affair. At this meeting the Board presents a full report of the Association's business for the past year, a statement showing gross sales and total costs, and a balance sheet. The correctness of the financial statements is vouched for by auditors appointed by the members. In reporting on the year's operations the directors use large charts showing details of sales and costs through the various departments.

"Within the Association there are twenty-two local membership groups and meetings of these locals are held throughout the year. Local meetings are attended by directors who thus keep the membership informed of current activities. The Association also publishes a monthly magazine devoted to the dissemination of information regarding its business and matters of interest to dairy farmers.

"Membership Growth.

"The Association commenced active marketing operations February 16th, 1917, and at the end of that year had 848 members. At the end of 1944, the membership was 5,379. The Association has no non-member shippers.

"Management.

"The President of the Association, who is a member of the Board, devotes full time to the Association's affairs and is assisted by a General Manager and executive staff experienced in business administration, milk plant operations





and marketing. Directors meet frequently and are kept in close touch with the business in order that they may be able to inform members of the Association's activities as and when they contact them in the country.

"Capital Structure.

"At this date the Association has a paid-up capital of \$929,463.00 and a first mortgage bond issue of \$500,000.00 (70 per cent of this issue is in the hands of members.)

"When application was made for a charter the capital was fixed at \$250,000.00 divided into \$10.00 shares. Members were asked to subscribe on a per cwt. basis of milk shipped. Upon application a member would pay 5 per cent of the amount subscribed for in cash and give a note for the balance. This note was supported by an order to deduct 5 per cent of the amount of the application from each month's milk account until the note was paid. Upon payment of the subscription in full members were given a certificate showing the amount of stock held.

"As the business grew more capital was required and in March, 1919, the authorized capital was increased to \$1,000,000. In February, 1933, this was changed to an unlimited number of shares with a par value of \$1.00.

"Coincident with this change, the Association decided to adopt the revolving capital plan. When the Association was organized one of the conditions of membership was that if a member ceased active dairy farming he could call for the redemption of his stock. As time wore on, it became apparent the early members would be retiring and while many of them might want to hold their shares, others would not, and the burden of redemption might become serious.



"It was therefore decided to call in the entire outstanding capital and for each member's holding issue ten certificates maturing in from one to ten years.

"This plan contemplated the redemption of the entire capital and the issue of new ten-year period capital over a ten -year term. The underlying motive was to keep the capital as proportionately as possible in the hands of dairy farmers served by the Association.

"Funds with which to redeem the 10 per cent block of certificates maturing each year are set up by making monthly deductions from shippers' milk credits. At the end of the year certificates redeemable ten years later are issued to these shippers for the deductions so made. The amount of paid-up capital has not been affected but each member's holding has.

"New members are being taken into the Association every month. They are required to subscribe for ten shares of stock (\$10.00) and may pay cash in full or have deductions made from their milk accounts.

"Bonds of the Association are retired in the same manner and stock issued for bond redemption deductions.

"Borrowed Capital.

"From the foregoing it will be seen that the capital of the Association is really borrowed money with a definite maturity date. Under this plan non-shipping members are currently retired and the capital held by them transferred to shipper members in proportion to the service rendered by the Association.

"Interest on Stock.

"The Rules of the Association provide for the payment of interest at the rate of 6 per cent.



"Method of Operation.

"Milk is hauled from members' farms by trucks owned by operators who contract with the Association to haul its members' milk at definite rates on routes laid out by the Association. Hauling contracts are revised every two years. Routes are carefully planned to avoid duplication and to permit of the utmost flexibility, dispatch and economy in moving milk from producers' farms to plants and markets to meet changing demands and procure best returns.

"When milk reaches the Association's plants it is checked for off flavours, weighed and samples for testing. Butterfat tests are made every two weeks from composite samples taken daily. There is no incentive to short-weight or undertest any members' milk. No one could possibly profit from such practice. Each member's milk is also tested regularly for bacterial content or other impurity. The Association's grading system is much more rigid than is required by Provincial Statute. It was established and is supported with complete membership approval. Until the Association inaugurated its grading system several years ago, very little grading of milk was done either for the fluid or manufactured markets. Members are informed twice each month of their tests and grades, and with their monthly statements they receive a memo of the weights of their daily shipments. The Association employs a university-trained staff of technical men to do its laboratory work. These men render personal assistance to members who from time to time may meet with grade or production troubles.

"Fluid Market.

"This market being the most remunerative, the





Association endeavours to sell as much of each days's shipments on it as possible. This is accomplished through its own fluid milk operation and by bulk sales to other milk dealers. All prices are fixed by order of the Wartime Prices and Trade Board.

"To facilitate the distribution of milk by its own fluid department the Association maintains branch depots in North Vancouver, New Westminister and at other points in Greater Vancouver. Bottled milk is delivered to these depots by large trucks and is then taken to its final destination by trucks and horse-drawn vehicles stationed at these points. The entire metropolitan area of Greater Vancouver and New Westminister is served by the Association.

"Bulk raw milk is supplied by the Association to two classes of city distributors. A few small volume distributors buy their entire supply from the Association the year round. These distributors receive no milk from individual dairy farmers at all. By far the greater number of the city distributors, however, purchase only what is known as "accomodation milk". Distributors in this group receive their main supply from dairy famers residing in the milk-shed known as 'independents', and who are not members of the Association. Generally speaking, these farmers supply their distributors with just about what they require during summer months. During the months of low production they are not able to provide the distributors with their full requirements, hence the distributors draw from the Association. The demand made upon the Association for 'accommodation milk' fluctuates considerably from day to





day. For instance during the week of December 18th to 28th, 1944, this demand ranged from a low of 3,300 lbs. to a high of 48,900. This varying demand is taken care of by the Association diverting milk to the City from its Sardis Utility Plant or its Abbotsford Evaporating Plant. Full and friendly cooperation exists between the Association and other milk distributors operating in the fluid markets of Vancouver and Victoria. The price paid the Association by both classes of distributor is fixed by the Wartime Prices and Trade Board.

"Evaporated Milk Market."

"This market being next in line from the standpoint of value, the Association endeavours to place on it as much milk as possible. It also supplies raw milk to the Borden Milk Company for that company's evaporating plant located in the Chilliwack district, which plant ordinarily operates nine or ten months in the year. The price paid by the Borden Company is based upon butter and skim milk product values.

"Butter, Powder, Ice Cream, Etc."

"The remainder of each day's milk receipts is manufactured into butter, powdered milk, casein, ice cream, cottage cheese, and other marketable dairy products.

"Method of Settlement with Members."

"All milk received by the Association is consigned. It is not known, either by the member or the Association, what the return to the shipper for the milk will be. As the milk comes in it is dealt with as previously described and sales from all departments less manufacturing and selling costs are pooled in a common fund.



"At the end of each month the Directors are presented with a statement of the previous month's net sales of all products together with an estimate or 'forecast' of what the current month's net sales will be. With this data before it the Board estimates what shall be the month's 'settling rate'. This is made up of a price per pound butter-fat plus a price per cwt. of skim milk. This 'settling rate' is only an estimated figure but when it has been decided upon by the Board the month's milk shipments are credited at it and members paid accordingly. Members receive two cheques each month, one an estimated advance, the other to balance the month's credit at the "settling rate" named. What the actual result for the month based on this rate will be, will not be known until about the twentieth of the month following. If an overpayment has been made, it will have to be recovered in subsequent months. If an underpayment, the balance will be merged with the succeeding month's net sales.

"The return received by members of the Association is known as a 'pooled settling rate.' It is made up of all net sales from the various channels through which the milk has been marketed. Due to the fact that very much more than half of the Association's total daily milk receipts have to be disposed of at manufactured products prices which are considerably below fluid market values this 'pooled settling rate' is always lower than returns received by 'independent' farmers practically the whole of whose milk is bought for sale on the fluid market. This discrepancy in return has been the cause of much annoyance to members of the Association throughout the



years. Various plans have been tried to remove this inequality, but no plan has continued to function long.

"During the year 1944 Association members received an average pooled return of \$2.47 per 100 lbs. of milk testing 4 per cent. The price received by dairy farmers who are not members of the Association, whose milk is sold on the fluid market exclusively, was \$2.70 per 100 lbs. Neither of these figures include Dominion Government producer subsidies. If subsidies were included the difference in favour of "independent" dairy farmers would be even greater.

"The price which a dairy farmer receives for his milk is a potent factor in deciding his choice of a marketing outlet. The higher the price the greater the influence. In days gone by members of the Association have cancelled their membership or violated their contract in order to avail themselves of the opportunity presented to get a few cents more for their milk by selling it to some city milk distributor instead of having it marketed by the organization. The advantage enjoyed by 'independent' dairy farmers is a very definite guarantee that in the field of producer supply the Association is not a competitor to be feared by private milk distributors insofar as the price factor is concerned.

"Surplus.

"At the year end there is usually a small balance undistributed. This is carried over into the following year and distributed with the succeeding months' net sales. Due to the presence of inventories it is practically impossible to balance each month or year. There have been instances when the year end showed an overpayment. This had to be recovered out of subsequent sales.







"The endeavor is to return to members currently each month by month the net sales for milk shipped in that month. Each month is charged with all direct costs incurred in the month and its proportion of indirect administrative costs such as interest on shares and bonds, depreciation, property taxes, insurance, etc.

"Year-end balances for five years, 1939-1943, were as follows:-

|                               |           |
|-------------------------------|-----------|
| 1939 Surplus                  | 617.46    |
| 1940 "                        | 1,087.34  |
| 1941 "                        | 9,893.54  |
| 1942 "                        | 3,676.70  |
| 1943 Deficit<br>(overpayment) | 16,144.34 |

"Outside Purchases.

"To enable the Association to retain its customers for butter and other manufactured products during the months of lower milk production it is occasionally necessary to buy certain quantities (chiefly butter) of such products. Profits on the sale of these products are very meagre and are merged with net sales of members' milk monthly. The volume of outside buying does not exceed 12 per cent of the value of members' milk.

"Some Accomplishments.

"From the very start of its marketing career the Association brought benefits to dairy farmers, members and non-members alike. It stabilized fluid market values and by the operation of its own milk distributing department proved that the 'spread' enjoyed by city distributors prior to the Association's creation was greater than was justified.



"It also disposed of milk produced in the milk-shed that could not be absorbed by the fluid market, in an efficient manner. Prior to the functioning of the Association and in its early years vast quantities of skim milk were annually wasted in areas where the milk had to be separated and the cream churned into butter. In the year 1924, at a cost of \$60,000, the Association installed the first milk powder plant in the Canadian West to convert this skim milk into powder. It recovered the initial cost of the plant in one year and the 'pooled' settling rate has been benefitted ever since by the operation of this unit.

"By organizing its members milk routes and letting milk hauling contracts by tender, the cost of hauling has been greatly reduced, and is kept upon a competitive basis.

"Members of the Association initiated the move to have the Fraser Valley made a T. B. Free Restricted Area, thus conferring upon the consumers of milk a great boon.

"Through its monthly magazine the Association disseminates information regarding proven methods of improving milk production. This information deals with feeding and treating of dairy cattle and care of diseases common to milk producing stock. An outstanding example of the co-operative work of members of the Association has been the campaign to eradicate the Warble Fly nuisance. The results of this campaign to date have been most beneficial to the industry.

"The assurance given by the operation of the Association to dairy farmers already located in the Valley and



incoming settlers, that a reliable steady market existed for their milk year in and year out was a great incentive to increased production. From the year 1917 until the end of 1944 the Association marketed for its members 3,112,274,250 lbs. of milk. Gross sales value of this was \$95,863,810.00. Net return to members was \$66,894,192.00, an average of 53.7 cents per lb. butterfat. On a comparable basis (all values pooled) it is not believed this return has been equalled anywhere in Canada.

"The care with which the Association has conducted its business is indicated by the fact that its bad debt loss in its whole twenty-five years actual selling has been less than 10 cents per \$100.00 of sales.

"A feature of the Association's service worthy of mention is the manner in which it cared for and fostered the welfare of soldier settlers following the close of World War I. Many of these men undertook dairy farming with a very meagre knowledge of the problems involved. Several hundred of these settlers settled in the Fraser Valley and the great majority of them became members of the Association. Special attention was given these settlers by the Association. Advice and instructions in how to carry on were freely given by Association experts in farming and milk production methods. Important financial assistance was also given by the acceptance and honouring of orders for payments to the Soldier Settlement Board on land purchases. On many occasions the influence of the Association saved these settlers from foreclosure proceedings. It has been a fixed policy of the Association that shippers of small amounts of milk have been given





equal treatment with members shipping large quantities. The Association has been criticized for this policy, but time has demonstrated that hundreds of men who start in a small way in due course become substantial shippers.

"The Association today owns and operates all proven methods of marketing milk, either in fluid or manufactured form. Its fluid market plant is one of the most modern in Canada, and in point of daily gallonage ranks with the largest. Its manufacturing plants have been continually expanded and improved and full advantage has been taken of modern developments in the industry to the end that the "pooled" settling rate might include as much as possible of available market values.

"The Association has consistently followed the policy of discouraging the boosting of fluid market values beyond a reasonable figure in keeping with consumer's ability to pay. The Association has taken the position that too high fluid milk prices discourage the maximum consumption. This policy has not always been popular with independent dairy farmers, but the Association believes that it has been in the interest of the entire industry.

"The Association has consistently followed the policy of working with and through established trade channels. It employs all branches of the distributive trade.

"Finally it may be stated with emphasis that the Association has fully lived up to the policy enunciated by its founders 'to sell our milk and cream through our own institutions for mutual advantage and not for profit.'





"Members have consistently and currently received the net proceeds of the sales of their milk, in accordance with the terms of their contract. No hidden reserves exist and no member's share-holding has been built up by the distribution of patronage dividends. Paid-up capital has been created by members out of cash due them for milk shipped.

"Interest has been paid on members' shareholdings because the equivalent of these shareholdings have often been interest bearing liabilities of members in connection with their dairy farming operations.

"Plans for the Future. .

"During the year just ended the Association was called on to handle nearly twenty-five million pounds more milk than in the previous year. This taxed the various plant capacities severely. Provision will have to be made to take care of future increases in production which seem certain and the Association is now making plans to this end. Expansions are being planned to the Utility Plant at Sardis and the Main Plant in Vancouver. Certain phases of the plans must be completed in time to handle the flush production of 1945.

"Income Tax Experience.

"On December 6th, 1924, the Department of Customs and Excise assessed the Association \$3,160.56 in respect of the sum of \$32,100.55 alleged net income for the 1923 taxation period. This sum was made up of interest paid on redeemable capital plus a small undistributed balance of net sales.

"The Association appealed against the assessment. Counsel for the Association attended at Ottawa and explained the facts to the then Commissioner of Income Tax



and the Departmental Solicitor, both of whom were apparently satisfied that the tax should not be imposed as nothing further was done.

"On January 18, 1928, the assessment was affirmed, and interest at 10 per cent per annum added.

"On July 16, 1928, the Association received further assessment notices as follows:-

| <u>YEAR</u> | <u>TAX</u>       | <u>INTEREST</u> | <u>TOTAL</u>     |
|-------------|------------------|-----------------|------------------|
| 1924        | 4,332.99         | 1,116.83        | 5,449.82         |
| 1925        | 3,788.73         | 749.23          | 4,537.96         |
| 1926        | 3,420.01         | 471.11          | 3,891.12         |
| 1927        | 4,378.18         | 340.41          | 4,718.59         |
| 1928        | <u>5,430.59</u>  | <u>96.39</u>    | <u>5,526.98</u>  |
|             | <u>21,350.50</u> | <u>2,773.97</u> | <u>24,124.47</u> |

"The Association appealed the 1923 assessment to the Exchequer Court and the Supreme Court of Canada without success. (See Fraser Valley Milk Producers' Association vs. Minister of National Revenue, 1928, Ex.C.R. 215, 1929, S.C.R. 435.)

"In May, 1929, special representations were made to the Prime Minister on behalf of the Association and in December 1929, a delegation composed of representatives of the Association and other cooperative concerns discussed the taxing of cooperatives with the Federal Cabinet.

"No tax was paid by the Association in respect of any assessments.

"Should Association Be Taxed?"

"As the statutes are now it seems quite clear the Association is not liable to taxation either under the



Income Tax Act or the Excess Profits Tax Act. But it may be contended the Association should be taxed in manner similar to privately owned milk marketing businesses, and that the statutes should be amended to make taxing possible. In support of this contention it may be argued that in its career the Association has absorbed privately owned tax paying concerns and that with the integration of the business done by these concerns in the Association's operations, taxes ceased to be paid, thereby causing loss of revenue to the state and giving an undue advantage to a competitor in a common market. Regarding this contention the following statement of fact is made.

"It is true from the commencement of the Association's active career until very recently the organization has from time to time acquired milk manufacturing and marketing operations from private owners, individual and corporate. Quite early in its history the Association purchased a number of milk distributing concerns operating in Vancouver. It also purchased from a private corporation a milk evaporating business which it has developed as a very important channel of sale for part of its members' milk. The several milk distributing businesses purchases were consolidated into the Association's fluid milk department and up until December 31, 1930, this department supplied at least 50 per cent of all the fluid milk sold in the cities of Greater Vancouver and New Westminister. Prior to December 31, 1930, the Association was approached by most of the privately owned milk distributing businesses in Vancouver with a proposal to merge its fluid milk department with their several





operations and form one metropolitan milk distributing concern that would coordinate and unify the marketing of fluid milk. The Association agreed to do this and on January 1, 1931, its fluid milk department and the businesses of the several other operators were amalgamated in a private corporation known as Associated Dairies Limited. In allocating shares in this concern on the basis of appraised asset values the Association was given 53 per cent of the company's stock. The balance of 47 per cent was held by individuals and corporations who had formerly operated the several privately owned businesses merged.

"At the end of December, 1943, the Association purchased the 47 per cent interest of these other shareholders and commencing January 1, 1944, operated the business previously carried on by Associated Dairies Limited as an integral part of the Association's general marketing operations. For some years Associated Dairies Limited had made profits and paid taxes. Upon the departmentalizing of the business formerly carried on by it within the Association, what had been profits of that Company became part of the net fluid sales of members' milk. At the end of May, 1944, the Association took over the business of Arctic Ice Cream and Dairy Co.Ltd., in which it also had a very substantial shareholding, and the profits formerly earned by this concern have become likewise merged in the net sales of that volume of members' milk marketed in the form of ice cream.

"In neither of these transactions was there any thought of avoiding the payment of federal taxes. In the case of the purchase of the 47 per cent holdings



of Associated Dairies Limited the Association paid out in cash over half a million dollars. In the purchase of the minority interest in the Arctic Ice Cream and Dairy Co. Ltd. it paid \$35,000.00. These purchases were made in conformity with the original plan of the Association as stated in the Memorandum of Association to the end that the Association might market its members' milk through its 'own institutions for mutual advantage and not for profit.' Merging its former fluid market department with other operators to form Associated Dairies Limited was done in an effort to reduce the excessive cost of distributing milk which the competitive practices of the milk business had brought about. The venture did not fulfil the hopes of its creators for the reason that within a very short period after its creation a number of new milk distributors started up in the market and what had been thought would be a well coordinated milk distributing business because just another unit in a highly competitive field of merchandising. When this fact became apparent attempts were made by the Association to purchase the holdings of other shareholders in the Company in order that the original plan of the organization might be reverted to. It was not until the latter part of 1943 that this purchase was consummated.

"It is clear from the pronouncement of the founders of the organization that individual member returns and not corporate profits were the prime objective of the undertaking. This policy has never been departed from. The Association does not buy and sell milk. It does not plan at the beginning of each year to market so



much of its members' milk in this market or that, on the basis of a fixed purchase price, and with a fixed margin of profit in view. Its operations might almost be said to be carried on opportunely in that from time to time changes are made in the volume of milk disposed of in the various markets when it becomes apparent that better returns can be had in one market than in another.

"The Association, apart from the natural desire of its directors, is always under pressure to obtain the highest possible pooled return for its members. There is the never-ending influence of the higher returns received by 'independent' dairy farmers who do not participate as do members of the Association in the lower market values of manufactured dairy products, and there is always the pressing desire of members for more money with which to meet their liabilities, keep their operations in a reasonably efficient state and enjoy some, at least, of the amenities of life. Members of the Association are not concerned about the interest they receive on their shareholdings. What stock they have in the Association from time to time is looked upon as part of their farm investment, on a par with machinery, cattle and other equipment necessary in the production and converting into cash of their milk. Their prime concern is what they receive for their milk.

"In view of these facts and the further fact that the Association has no corporate net income, it is not known on what basis income or excess profits tax could be levied.

"This Brief is respectfully submitted by





Fraser Valley Milk Producers'  
Association.

(W. L. Macken, President.) "

## Documents filed with brief:

- Schedule "A" - Certificate of Incorporation
- Schedule "B" - Memorandum of Association
- Schedule "C" - By-laws of the Association
- Schedule "D" - Copy Membership Contract
- Schedule "E" - Pamphlet covering:
  - Notice of Annual Meeting
  - Directors' Annual Report
  - Auditors' Report
  - Financial Statement
  - 1943.

.....

THE CHAIRMAN: You might establish that the facts alleged in the brief are to the witness' knowledge correct.

BY MR. PARKER:

Q. Mr. Macken, you have personal knowledge of the facts recorded in the brief which you have read?

A. Absolutely.

Q. And the facts and figures apart from those within your personal knowledge are correct? A. I have lived through it all.

A. And they are correct? A. Yes.

SENATOR FARRIS: I think you have made a clear and a fair statement but you can be of a little more assistance yet. There are some statements in the brief which I have prepared here which I would like to make sure are correct or otherwise. If they are otherwise we shall be glad to withdraw them.





BY MR. FARRIS:

Q. At page 18 of the brief which I have filed Mr. Macken, it is stated that at December 31, 1932, buildings, plant and equipment of this association had a gross book value of \$504,964.95, and a net book value of \$247,109.48. Would that be correct? A. Referring to the association. I am sorry but I cannot say. Did you get it from some statement of ours? If it is one of our statements it would be correct.

Q. You will see this, and if there is anything wrong with it I shall see that it is corrected: "Reference has been made previously in this submission to the substantial sums of tax-free profits which have been made available to so-called cooperative enterprises through existing tax legislation, while on the other hand the independent operators are limited to earning a fixed return on capital. On the one hand the so-called co-operatives have large investments in assets and large reserves available for investment and expansion. That this expansion is substantial may be illustrated by reference to the financial statements of Fraser Valley Milk Producers Association, which, undoubtedly, will be made available to the Commission. At December 31, 1932, buildings, plant, and equipment of this Association had a gross book value of \$504,964.95, and a net book value of \$247,109.48. Information with respect to the corresponding figures at December 31, 1944, is not available to the Independent Dairies, but at December 31, 1943, the audited financial statement of Fraser Valley Milk Producers Association indicated the investment on buildings, plant and equipment amounted to \$672,907.45, with a net



book value of \$278,213.05. On December 21, 1943, the Association acquired the remaining shares of outstanding stock of Associated Dairies Limited, and in acquiring complete control of this company took over assets having an appraised value of \$952,845.68, exclusive of certain farm properties." Is that right? A. I haven't got those figures before me.

Q. I will give you these figures later, and if there is any correction to be made it will be made.

THE CHAIRMAN: Do they appear in the association's statement?

MR. FARRIS: I don't know that they do.

THE CHAIRMAN: Where did you draw them from?

MR. FARRIS: My auditors gave me this. They are correct, I believe, but Mr. Macken and I will work on this and if any corrections are necessary we will have them made. At the end of my brief there is a schedule.

BY MR. FARRIS:

Q. We refer to your organization again at page 25 and I think I shall have to read this. However, if I read it now I will undertake not to go over it again. I will begin at the middle of the paragraph: "Prior to 1929, the Income Tax Department assessed Fraser Valley Milk Producers' Association under the Income War Tax Act, and in subsequent litigation it was held that a distribution to shareholders of certain amounts of income constituted a return on capital and as such was taxable in the hands of the company. The audited statements presently being issued by Fraser Valley Milk Producers' Association do not indicate complete details of operating expenses. In the year 1937, the statement



of the 'Manufacturing and Distribution Account' included in fixed charges an item labelled 'Interest on Capital - \$54,000.00'. The Balance Sheet of the Association at December 31, 1943, indicates a current liability 'Interest on Capital - \$63,812.72'. Fixed charges for 1943 amount to \$99,627.39, which amount includes interest on capital. It is submitted that these disbursements do not differ materially from the payment of dividends to shareholders of a limited liability company. It is pointed out that a limited liability company is not entitled to deduct dividends before arriving at a net taxable income, but that the interest on capital distributed by Fraser Valley Milk Producers' Association is included in the expenses of the Association. There is additional evidence of the similarity between the Fraser Valley Milk Producers' Association and a private enterprise in the nature of its capital stock. These shares are traded in regular stock market channels and find a market in the city of Vancouver. It is known that the shares pay 6 per cent on the par value. They are issued on a ten-year redeemable 'revolving door' plan, which in no sense alters the facts of the case. A farmer may become a share-owning member of the Fraser Valley Milk Producers' Association, and a short time later he might discontinue shipping milk and thereby cease to be an active member. He may even cease farming operations completely, but for the balance of the ten years he will continue to receive interest on the shares registered in his name. It is within the discretion of the Fraser Valley Milk Producers' Association to re-issue the shares to the same individual or otherwise as circumstances may direct. To the







extent that its shares are owned by members who no longer ship milk or cream, the Fraser Valley Milk Producers' Association is not returning the full benefits of its cooperative form of organization to its own members. It is submitted that the payment of interest or dividends on capital is proof of the contention that this cooperative is earning a true profit which ought to be subject to the same taxation as profit earned by a private enterprise," Mr. Macken, the last paragraph on page 26 begins with this statement: "For about thirteen years Associated Dairies Limited has been in operation in Greater Vancouver, supplying dairy products to the local trade. During these years it has operated as a limited liability company, computed its taxable income in the specified manner, and paid income tax." Is that correct? A. Yes.

Q. "For the year ended December 23, 1941, the tax was approximately \$29,000, and for the year ended December 22, 1942, the income and excess profits tax aggregated approximately \$93,500." Is that correct? A. I don't know. I would have to verify those figures. I would be glad to give you those figures, Mr. Farris.

Q. Again: "It should be borne in mind that the excess profits tax rate increased on July 1, 1942 from 75 per cent to 100 per cent. While accurate figures are not available, it is understood that Associated Dairies Limited paid taxes in excess of \$200,000 for the year ended December 21, 1943." Is that correct? A. Not quite, but it is close enough.

Q. How is it wrong? A. It was not that much.

Q. But it was about \$200,000? A. Somewhere around there.



Q. I would be glad to get from you the exact figure. A. Yes; I will give it.

Q. I refer you next to the paragraph in the middle of page 27: "The situation at this time was as follows", etc. The first "50 per cent" mentioned should be 53 per cent, and further down, in the fifth line, it should be 47, so that the paragraph should read: "The situation at this time was as follows. Prior to December 21, 1943, Fraser Valley Milk Producers' Association owned approximately 53 per cent of the stock of Associated Dairies Limited. The appraised value of the plant and equipment of the Associated Dairies Limited at this date amounted to \$952,845.68. By purchasing the remaining 47 per cent of the shares of Associated Dairies Limited for \$500,000 the Fraser Valley Milk Producers' Association could save at least \$200,000 taxes in the first year of ownership...." That is right? A. Yes.

Q. "...and if taxes and profits remained at the same level (which at this date appears to be quite possible) for a period of two and one half years, the taxpayers of the country would be paying the whole purchase price." Is that right? A. Our farmers would be getting that, yes, instead of the government. That is all admitted in my brief.

Q. On the next page, page 28, there is this statement: "The financial statements of Fraser Valley Milk Producers' Association for the year ended December 31, 1944, are not yet available, but at December 31, 1943, the book value of plant, buildings and equipment amounted to \$278,213.05." Those figures are no doubt in your statement. To continue: "With the acquisition



of the Associated Dairies Limited properties, having an appraised value of \$952,845.68, the total investment in plant, buildings and equipment of \$1,231,058.73 will be engaged in the production of tax exempt income in this one organization." Is that correct? A. Yes.

Q. If the law remains as it is, this investment, you expect, will be engaged in the production of tax income returns to your organization? A. To the farmers, not to our organization. We have no returns.

Q. The shares of your association are sold on the market in Vancouver? They are sold on the stock market? A. No. They are not negotiated except between members.

Q. I understand that there are five thousand members and they can be sold from one member to another? A. With the approval of the board.

Q. And sales do frequently take place? A. Oh yes.

Q. And aren't they sold on the market from time to time, subject to the approval of the board? A. There is a brokerage firm in the city that advertises to buy them but they can't hold them. We do not know about that.

Q. It is not the custom to refuse approval if it is from one member to another? A. If the rules are complied with.

Q. Is there a limit as to how many a member may hold? A. Yes, there is a limit; and he must be a member in good standing.

Q. Something on the same principle as a private company? A. I don't know about that.

Q. Before the absorption of Associated Dairies





Limited, what was your position in the Associated?

A. I was managing director of the Associated Dairies Limited.

Q. And you were president of the Fraser Valley Milk Producers' Association? A. Yes.

Q. How long were you managing director of the Associated? A. From 1933.

Q. For ten years? A. Yes.

Q. In Vancouver, where was the headquarters of the Fraser Valley Milk Producers' Association in relation to Associated? A. We rented quarters from Associated Dairies.

Q. What was the procedure at that time as between the two organizations in the sale of milk?

A. Milk was received at the plant of Fraser Valley, which occupied part of the building that had been turned over by Fraser Valley to Associated Dairies. When the amalgamation took place the product was received by Fraser Valley officers, weighed, tested and graded, and then delivered across to Associated Dairies.

Q. Under the same roof? A. Yes, and paid for by Associated Dairies at the prevailing prices fixed by arrangement through the Wartime Prices and Trade Board on the basis of butter fat content, which was checked by an official of Fraser Valley.

Q. Was that the pool price? A. No, the full market price.

Q. So that the price to the Associated was the current market price as fixed in 1943 by the Board?

A. Yes, with the exception of the last couple of years





when we got the permission of the Board to pay Fraser Valley somewhat more on butter fat than we sold to other operators.

Q. Then you processed the milk? A. In the Associated Dairies; pasteurised and bottled it.

Q. And your own rigs and drivers deliver it to householders in the city? A. Yes.

Q. And that was and is a higher-priced market for milk? A. Yes.

Q. In addition to the proceeds from sales by Fraser Valley to the Associated, the Associated also had other outlets for its milk in the manufacturing field? A. The association?

Q. The Fraser Valley? A. Yes.

Q. Those manufacturing plants were owned by the Fraser Valley Company? A. The Fraser Valley Association, yes.

Q. The pool was made up from prices you got from milk on the manufactured market together with the price you got from Associated Dairies Limited?

A. And other dealers.

THE CHAIRMAN: But Associated entirely disappeared as an organization?

THE WITNESS: The charter is still alive because of refundable tax due. We have departmentalized the business done by the Associated. We have created a fluid milk department.

BY MR. FARRIS:

Q. The plant has not changed? A. No. It is the same plant.

Q. You exercise the same functions in connection with that part of the work as you did before? A. Yes.



Q. And your employees are practically the same? A. Yes.

Q. Except that they are now paid by Fraser Valley rather than by the incorporated company?

A. Yes.

THE CHAIRMAN: How much broader is the Fraser Valley than the old Associated?

THE WITNESS: Fraser Valley merged its milk department with other milk distributors and formed a joint stock company. Fraser Valley had 53 per cent of the preferred stock, 23 per cent of the voting shares, and three directors on a board of nine. Fraser Valley sold milk to Associated Dairies at a price fixed by agreement from time to time and latterly by the Wartime Prices and Trade Board. The two institutions are as separate and distinct as possible although they occupy the same building.

THE CHAIRMAN: The operations of Fraser Valley are wider than were those of Associated Dairies?

BY MR. FARRIS:

Q. So far as the pasteurizing and distribution of fluid milk was concerned, that was exclusively done -- speaking of your operations -- by Associated Dairies Limited? A. Up until the end of 1943.

Q. And that work is all done in exactly the same way now by the Fraser Valley Milk Producers' Association? A. Yes.

Q. And exactly the same service is given the public? A. Just the same. It is improving with age.

Q. Not the age of the milk or butter-fat? A. Definitely not;



Q. Now if the organizations had not changed in 1944 there would have been a tax liability, an income tax liability, on the part of Associated Dairies of over \$200,000? A. I think that is correct.

Q. And in addition to that there would have been a distribution of profits to the shareholders of that company? A. Yes.

Q. Fifty three per cent of which would have gone to the Fraser Valley Milk Producers' Association and through that back to its shareholders? A. No, to its shippers.

Q. Aren't they all members? A. There are members who are not shippers.

Q. It is a patronage price. A. Shipping price. We don't use the term patronage at all. We don't know anything about it.

Q. So that it is fair to say that by this change of organization over \$200,000 a year, on the basis of present operations, has been diverted from income tax to distribution among your shipping members? A. Correct.

Q. Without any additional service being rendered to the public? A. I don't think there is. We don't profess that at all.

Q. When the Associated existed, apart from these other manufacturing concerns which you had, let us for a minute assume they had been organized as corporations the same as the Associated. That would not be difficult to assume? A. Still I am going to assume it because they were not.

Q. I am trying to get at the operations; it would not be difficult to make the assumption. I do not want





to put any question that you cannot answer, but assume that you had a corporation similar to Associated operating, where you have one plant at Sardis -- and where is the other one? A. Abbotsford.

Q. If that had been so, what would have been the advantages, if any, of the activities of Fraser Valley Milk Producers' Association? A. Do you mean if we had been dependent on these institutions to buy our milk?

Q. Yes, just as you are dependent on the Associated to buy and distribute fluid milk? A. We would have had to take the price they were prepared to give us.

Q. But you still would have been rendering substantial services to your own members? A. Not as substantial as we have been able to do.

Q. But you would have rendered substantial services? A. I question whether we would have existed if there had been opportunities to sell to these concerns. We organized because there were none such.

Q. And having organized, if you had gone on with your organization and put your Sardis plant and the other plant into a separate company and confined the activities of Fraser Valley Milk Producers' Association to the assembling of milk and distribution of it, just as you did up to last year with Associated, would you not have rendered substantial benefits to your members? A. Not quite as much.

Q. All the benefits that you are contributing to your members, or were prior to 1944? A. May I refer to the brief.



Q. Yes. A. I will read, if I may, a paragraph or two with reference to accomplishments: "From the very start of its marketing career the Association brought benefits to dairy farmers, members and non-members alike. It stabilized fluid market values and by the operation of its own milk distributing department proved that the 'spread' enjoyed by city distributors prior to the Association's creation was greater than was justified." Nobody else was doing this.

Q. You are not suggesting, are you -- I know you are not, but I want to make it clear -- you are not suggesting that the only benefits you render your members is the distribution among them of what otherwise would be income tax? A. No.

Q. So there may be still other material benefits that you were contributing to your members?

A. Yes.

Q. And if you paid income tax on all branches of your manufactured business there would be still other material benefits going to members? A. Unquestionably.

THE CHAIRMAN: That is, you would still be able to carry on and pay income tax?

MR. FARRIS: They would be contributing a material benefit to the farmers of Fraser Valley. May I break in here, Mr. Chairman, to state -- and this may be a good time to do it -- that I am appearing for certain additional dairies in the Fraser Valley and lower mainland in addition to the ones in my brief. I am appearing for four additional ones who have come and asked to be joined in the submission.



THE CHAIRMAN: So that your group now comprises seven?

MR. FARRIS: Yes, Mr. Chairman. These are: Crystal Dairy Limited, Guernsey Breeders Dairy Limited, Glenburne Dairy Limited and Fraser Farms Limited.

THE CHAIRMAN: These companies associate themselves with your argument in the brief now before us?

MR. FARRIS: Yes, My Lord.

BY MR. FARRIS:

Q. My memorandum shows that the estimated sales of your association for the last year would be about \$3,000,000. Is that right? A. In the fluid market or the whole market?

Q. I take it that would be the whole market.

A. The whole market would be twice that.

Q. This must be the fluid market?

A. Probably. I have not the total figures for 1944.

Q. Would that be about right? A. Yes, I should think so.

Q. My memo shows, in 1944, estimated sales in Associated in the fluid market amounted to \$3,000,000, and combined sales of seven organizations I am representing amounted to \$4,200,000: Mr. Macken's company 35 per cent and this group 45 per cent, and that leaves 20 per cent still at large, not represented here. If you care to do so you might state again -- I think you have it in your argument -- just why you would say that it was justifiable that the Associated should pay income tax and that now, in connection with the business formerly done by the Associated, the Fraser Valley Milk Producers' Association should not pay income tax?





A. Well, at the risk of being tiresome, I may say that the association throughout its career has from time to time chased private operators' businesses, manufacturing and fluid, and undoubtedly they made profits, though whether they paid taxes or not in those days I am not prepared to say. We did not get them for nothing, I assure you. We paid good money. We did not get the 47 per cent stock holding of Associated Dairies for nothing; we paid \$517,000 on the barrel head. As I have stated, we started out to own all of these manufacturing and marketing facilities so that we would be completely independent of any other enterprise but our own. The only reason we joined Associated Dairies was because we hoped that a merger of all milk-distributing operations might have accomplished a reduction in the cost of distributing milk, which was admitted by everyone to be too high because of competitive practices. We went out in good faith, but within a very short time after starting Associated Dairies difficulties arose. The depression struck us, and dairies that had been closed down by Associated Dairies to save operating costs released men, many of whom started in the milk business on their own.

Q. You had hoped to control the entire market?

A. Yes; but it did not work out that way.

Q. That is hardly a reason for saying that you should escape income tax, is it? A. Then we decided that we had made an error in judgement, although in good faith, and recommenced negotiations with other shareholders to take over their holdings and revert to our former position. We could not accomplish that until the





time we actually made the purchase. I do not think there was any thing morally wrong in buying 47 per cent interest. It was a true price.

THE CHAIRMAN: You were an officer of both?

THE WITNESS: I was president of Fraser Valley Milk Producers' Association.

THE CHAIRMAN: Were there any interlocking directors?

THE WITNESS: There were three directors of Fraser Valley Milk Producers' Association on the board of Associated Dairies. We are now back in the position we organized to be in.

BY MR. FARRIS:

Q. That is a very satisfactory explanation of why you have done it, and in my brief there is a suggestion, in the supplement, that it was done to escape taxation. I withdraw that and accept your statement. I may say, Mr. Chairman, that I have known Mr. Macken a long time and if he makes that statement under oath I certainly accept it. But that \$200,000 did not constitute a hindrance, Mr. Macken? A. For seven long years Associated Dairies made heavy losses and we were prepared to buy it in the lean years.

Q. I did not make that remark with any intention of being offensive. I have known Mr. Macken and his organization and we have had lots of fights and lots of cooperation as well.

THE CHAIRMAN: Where does that statement appear?

MR. FARRIS: I shall come to it when I read my brief, Mr. Chairman.



BY MR. ELLIOTT:

Q. Concerning the supposed net loss of \$200,00 in taxes by reason of the reorganization we have been discussing, a surplus resulting from your dairy operations now, it is suggested, flows back to your members?

A. Would you please not say surplus, but net sales.

Q. The net sales of that concern which you have now made part of your organization, less expenses, now flow back to your members without taxes being imposed on them? A. Yes.

Q. Presumably, then, if the other factors in the situation are the same, your members may expect to receive something like \$200,000 more in one fashion or another? A. Right.

Q. That income is taxable in their hands? A. Yes.

Q. To the extent of the additional taxes, then, the additional income taxes paid by those members, the loss is not \$200,000 but something less than that? A. Correct.

THE CHAIRMAN: What is your objection to the word surplus?

THE WITNESS: The way it was used there.

THE CHAIRMAN: We have heard several times the terms surplus and profits; your expression is net earnings?

THE WITNESS: Net sales.

MR. PARKER: "Savings" is the other word.

THE CHAIRMAN: Is there a difference between surplus and net earnings?

THE WITNESS: At the end of 1939 we had \$617.46 of a surplus, which was the difference between the total net



sales as realized by the association and the total amount we paid, the price for milk consigned to us.

THE CHAIRMAN: You do not like the term "patronage dividend"?

THE WITNESS: That was not a patronage dividend. It was the difference between what we received as net sales for all milk consigned and what we paid.

BY MR. ARNASON:

Q. You estimate in advance? A. Month by month.

Q. Any surplus or less would be the difference between what you estimate and what actually takes place? A. Yes. In 1943 we overpaid them by \$16,000 odd and we recovered that the next month. That is what we call a surplus or a deficit as the case may be.

BY MR. FARRIS:

Q. I think you may help in this regard, Mr. Macken. Do you know anything about Richmond Milk Producers Limited? A. Their manager is a personal acquaintance, but I know nothing about their business.

Q. In my brief, at page 28, in the schedule we refer to Richmond Milk Producers Limited. That was one of the independents? A. Yes.

Q. It was not managed very well and the farmers took it over. A. You should not put that up to me that way.

Q. For some reason or other it was not getting on? A. I am acquainted with their manager, a fine chap.

Q. The present manager? A. Yes.

Q. I did not know that. I withdraw that too. But for some reason it was taken over by the farmers?





A. They are now a cooperative.

Q. And their sales are mostly on the fluid market? A. You should not ask me that; I don't know.

Q. All I want to bring out is this: that as the law now is the field is open for independents who are not helping to stabilize the manufacturing market to form cooperatives and apply what would otherwise be income tax in reserves for new buildings and new equipment? A. Yes. That is right.

THE CHAIRMAN: Is there any further cross-examination of Mr. Macken? If not, that case is closed. What are we taking next?

MR. FARRIS: The Independent Dairy Operators, My Lord, are all limited companies, non-cooperative, using that word technically.

THE CHAIRMAN: Do you propose to bring evidence in support of your brief?

MR. FARRIS: No. I will indicate one or two sources.

THE CHAIRMAN: You will arrange with Mr. Macken to establish the points you refer to which are matters of fact?

MR. FARRIS: Yes. In the schedule we refer particularly to the organization in Vancouver Island. There is some information we have about the company on Vancouver Island which Mr. Cheyne can either corroborate or correct. I merely call his name to the attention of the board with the suggestion that the board might ask Mr. Cheyne to state the facts. I may read them now, and if he states that there is no material dispute about them they might stand. At page 29 I read, under the heading "Island:



Farms Co-operative Association, Victoria, B. C.", the following.

THE CHAIRMAN: Will you please listen to this, Mr. Cheyne.

MR. CHEYNE: Very good, Mr. Chairman.

MR. FARRIS: "The incorporation of this association is another good example of tax evasion by co-operatives." I did not write that. I would say tax avoidance; that is the correct word. "Equally important -- it is an example of the incentive to change from a private enterprise to a cooperative enterprise. The tremendous benefits to both parties is an indication of the possibilities of capital acquisitions under the existing law, and demonstrates that the number of tax-paying private enterprises will rapidly decrease until most business will be carried on by tax-free cooperatives.

"The actual data on this transaction is not available. If required by your Commission, it can be obtained from Robert Cheyne, Scollard Building, Victoria, B. C., who was instrumental in carrying out the transaction."

The new organization is carrying on in the same manner as the former corporation. It operates in the wholesale and retail milk business in Greater Vancouver, and is in direct competition with the dairies making this presentation.

"The information given below, while not accurate as to detail, is common knowledge, and is adequate to show the nature of the transaction.



"Early in 1941 Island Farms Limited was incorporated to take over a small milk business operated by Registered Jersey Dairies Limited in Victoria.

"During the following three years the business was expanded by purchasing routes from Producer-Vendors, and by normal aggressive trade practices. By 1944 the sum of \$60,000 was invested in this corporation and the company was well enough established to be on a currently profitable basis. Taxes became a problem. The solution to this problem was readily perceived. The shareholders of Island Farms Limited could get a substantial tax-free profit on their investment, and the producers shipping their milk to the company could acquire a profitable concern with little if any investment. This was accomplished as follows:

"Island Farms Limited was sold to Island Farms Co-operative for the sum of \$97,000. For the vendor this meant a very acceptable 'tax-free profit'.

"The terms of the sale were \$25,000 cash and the balance on reasonably short terms.

"From the producers' point of view it was equally attractive. If he had the capital necessary for his share of the down payment and if it was convenient, he put it up. If not, the bank was very willing to finance it for him. The officers of the cooperative were able to assure him that principal and interest could be repaid by the increase in the amount of his milk cheque due to tax saving. It could also assure him that the balance between \$25,000 and \$97,000 would be paid from the same source.

"Here we have a corporation, sold by its share-





holders at a substantial profit, and bought with little if any investment. A present by the taxpayers of this country to the shareholders of the old corporation and the shareholders of the new cooperative, and the organization is carrying on in the same identical way in the new form.

"That the shareholders of the cooperative were not deluded by a stock promoter's scheme is evidenced by the fact that after less than one year's operation as a cooperative, two instalments on the balance of the purchase price have been paid, although only one was due, and the shareholders of the corporation have already received nearly all their original investment."

THE CHAIRMAN: You are more or less compelled to put Mr. Cheyne in the box.

MR. ROBERT CHEYNE,

Island Farms Co-operative Association,  
Victoria, British Columbia,  
having been duly sworn testified  
as follows:

THE CHAIRMAN: Did you hear what was just read, Mr. Cheyne?

THE WITNESS: Yes.

BY MR. FARRIS:

Q. Make any corrections or comments you wish.

A. I would say it is an incorrect statement from start to finish.

BY MR. PARKER:

Q. Quite incorrect? A. Yes.

BY MR. FARRIS:

Q. Give details. A. It is an example of the incentive to change from private to cooperative enterprise. In the past fifteen years I have changed a great





number of private enterprises connected with the primary producer, from private to cooperative enterprise, with no idea of taxation.

Q. It would be well for you to state your position. What is your occupation? A. Chartered accountant, auditor for our firm in Victoria.

Q. What did you have to do with this particular transaction? A. I organized the new cooperative.

Q. You say this is an example of cooperative enterprise. Is it not true that in this case there was the tax exemption incentive?

THE CHAIRMAN: In the first place, there was a change from private enterprise to cooperative. That is a fact?

THE WITNESS: Yes.

BY MR. FARRIS:

Q. And was it not an incentive that there would be a substantial tax exemption. A. I would say the tax exemption enabled the original shareholders to obtain a larger price for their investment than they might otherwise have been able to obtain.

Q. It is not a reflection on anyone to say that. A. It is not a reflection on the farmer that he should want to conduct his own business. As stated here, "the tremendous benefits to both parties is an indication of the possibilities of capital acquisitions under the existing law, and demonstrates that the number of tax-paying private enterprises will rapidly decrease until most business will be carried on by tax-free co-operatives.

THE CHAIRMAN: That is really more a matter of



argument than a matter of fact.

THE WITNESS: As a matter of fact, the primary producers have been increasingly active in becoming cooperative for many years. That is not a question of taxation.

BY MR. FARRIS:

Q. In these increases, do you not think that freedom from income tax has been taken into consideration?

A. I would say it only applies to the producer organizations, not to private enterprise as such.

Q. But in the case of producer organizations who do get the benefit of exemption it was an additional incentive? A. Yes. The cooperative is tax-free and it is bound to be an incentive.

Q. Go on to your next criticism. It would be over the page. The first paragraph is all right, is it not? A. Well, there is some of this information here which, frankly, I don't think I am in a position to discuss. If I were to start to discuss this question of purchase price and various other things connected with it I might embarrass, not the cooperatives but some of your clients. I am sorry you have asked me these questions in court, but I am bound to answer them.

Q. You are in court under oath and you have to answer them. As far as the reference to my clients is concerned, I furnished no information. It was handed to me by auditors who were quite independent of anything that had to do with this.

THE CHAIRMAN: As regards the first paragraph on page 30, there can be no debate about that?

THE WITNESS: No.



THE CHAIRMAN: That is fact?

THE WITNESS: Yes.

BY MR. FARRIS:

Q. And the next one. There is nothing wrong about that? A. No.

Q. And the next one -- the sum of \$60,000 was invested in this corporation? A. I will not corroborate that. I would have to check that.

Q. Taxes -- the question of taxation -- became a problem? A. That is definitely not true. They lost money every year.

THE CHAIRMAN: When have taxes not been a problem?

BY MR. FARRIS:

Q. The next observation is one that we need not press for the moment. You might as well strike it out. If there was no income tax, why was the company bought over? This company was losing money at the start but it got past that stage? A. When the farmers took over the organization and doubled the number of members it became a profitable organization. It was a different matter from being run by an independent organization as it was then. When it became a cooperative organization they practically doubled their membership. Farmers almost poured into the corporation and they are still applying for membership. It increases every week.

Q. They had more inducement to offer.

A. I don't want to criticize the milk business. Yes; they had more inducements to offer, definitely, and it was not taxes.

Q. The same manager is there? A. Yes.





BY MR. ARNASON:

Q. In the next paragraph, the next to the one we have been discussing, there appears this sentence: "The officers of the cooperative were able to assure him that principal and interest could be repaid by the increase in the amount of his milk cheque due to tax saving." Do you agree with that? A. No. It was due to the fact that the cooperative was not buying and selling milk but was selling milk for the producer to the consumer direct and only charging that producer with the actual cost of the pasteurizing and selling of the milk. A very substantial portion of payments which have been made on this capital have been made by the very unexpected capital contributions by the farmers. When the original purchase was made we did not know how many farmers might join, and you had to go on a conservative basis; but as these increased they were able to make more substantial capital payments.

Q. The other observations we need not bother with. A. You have \$25,000 there. It was definitely put up by the farmers.

BY MR. ELLIOTT:

Q. With regard to that statement, that "taxes then became a problem", did you tell us that before the form of organization was changed, for several years, these concerns had not been paying taxes -- making no profit? A. Not several years. They operated two years and they made a loss.

BY MR. FARRIS:

Q. Were they not on a profitable basis at the time they sold over? A. Yes.



BY MR. ELLIOTT:

Q. For part of another year they were on a profitable basis? A. Yes. I hate to talk from memory, but the next year was not taxable either. They never paid taxes.

THE CHAIRMAN: We have really entered upon this case of yours now.

MR. FARRIS: Yes.

THE CHAIRMAN: Perhaps you will be good enough to complete it. Do you propose to read the whole brief?

MR. FARRIS: I think so, yes. It is more a submission.

THE CHAIRMAN: There is no further evidence coming?

MR. FARRIS: No; not unless the board felt that they wanted something about Richmond. But that is not necessary.

THE CHAIRMAN: I am afraid the time is limited.

MR. FARRIS: I suppose, more logically as in the ordinary court case, argument would come after the evidence was all in. But in preparing this I have had to assume some facts. I believe that most of what I shall assert has already been established, but as to some of the predictions I make, the Commission will have to draw their own conclusions at the end of the inquiry as to whether I am a good prophet or not. I also did keep in mind, in preparing the submission, the very last statement in the order in council -- that the Commission is directed to make such recommendations for the amendment of existing laws as they consider to be justified in the public interest. That is really the objective of my



submission, so that I deal with that at the end. But I state at the opening that it is with that in mind that this submission is made, and it is not intended to be an attack on any organization.

THE CHAIRMAN: In case of any misapprehension on the part of those here, the reason we are not putting you in the box, as we have other witnesses who have read briefs, is that you are Counsel representing certain parties. This procedure is slightly different from others in which the witnesses went into the box.

MR. FARRIS: In the Rowell Commission that course was followed very generally. I know that where evidence was being given witnesses were sworn, and where presentations or submissions were made they were allowed to proceed as in court. Unconsciously, in preparing this submission, I dropped into what might be regarded as the habit in preparing a factum for the Court of Appeal, in which case we have references to evidence already given, and I was handicapped to this extent, that I had to assume or take for granted that the facts on which my presentation would be based would be substantiated during the inquiry.

I will now read the brief. I have divided the submission into three parts: First, the allegation of unfair discrimination; secondly, the allegation that it is against the public interest for other reasons; and, thirdly, the proposal of remedies.

Under "Unfair discrimination" I make the submission that the Income War Tax Act and the Excess Profits Tax Act, as applicable to farmers' cooperatives and competing dairy companies, unfairly discriminate in favour of the





cooperatives and against their competitors, and I divide the presentation for purposes of argument under certain heads. First I give the classification of dairy marketing organizations, and I am not attempting to say that one corporation comes under one classification and another corporation under another. It is merely an analysis for the purpose of discussion; for I do not know of a single cooperative that would fit like a glove into any one of these classifications.

THE CHAIRMAN: They might get one finger in?

MR. FARRIS: Yes -- perhaps a thumb also. The first classification I make is that of the true farmer cooperative:

"One: The True Farmer Co-operative: One whose only function is to serve as agent for its farmer member patrons gratuitously marketing the milk in the form in which it is received from such patrons and accounting to them for the proceeds, less actual expenses, as trust funds."

I come next to "Two: 'Alleged' Co-operatives". I should have made this clear by saying "Alleged Farmer Co-operatives"

"A. A dairy co-operative (so-called) which performs services or carries on business activities other than or in addition to the agency services in 'one' and in particular (without limiting the generality thereof) processes or carries on activities such as pasteurizing, grading, bottling, homogenizing, making of butter, cheese, powdered milk, condensed milk, ice cream or other processes or products, providing bottles, machinery, buildings, equipment, delivery, conveyances, etc.





"B. A dairy co-operative (so-called) which as part or all of its members receives milk from non-members, whether as agents or by purchase or otherwise, for sale or re-sale.

"C. A dairy co-operative (so-called) which makes provision binding on its members and patrons for deductions from the purchase price, to be held by the company as a reserve for the purposes of the company (with or without provision for the return of any used portion of the same to members or patrons).

"D. Other forms in modification of the foregoing, or otherwise differing from 'one'.

"Three: A non-cooperative dairy company operating for profit and distributing its dividends to its shareholders or members.

"II. Examination of differences in tax liability of the foregoing classes under existing Income Tax Law.

"One: Class 'one' in the foregoing classification is not liable to existing income taxation.

"It is submitted that it is only this form of true cooperative which (if any) should be exempt from corporation income taxation, for the reason that it is this class only in which cooperation is exclusively the factor conducive to special benefits to the members or patrons. In other classes it is the various business activities of the corporation which are the material factors producing the special benefits reaped; and these special benefits are unfairly enjoyed by cooperative members or patrons solely because of tax exemption not afforded its competitors.



"Two. A: It depends on the particular facts of the case whether class two 'A' cooperatives are subject to income taxation under existing legislation as interpreted by the department.

"1. If a dairy company in this class makes as agent a complete return to its patrons of sales made, it would escape tax liability on the ground that it has no income."

This is important because it is much wider than 4(p). This one applies not only to farmer cooperatives or fishermen or others; it applies to a cooperative in any form that can establish the fact that it has no income. It is not taxable. It is a wide classification and goes much deeper than the small dairy organizations; and I cite a case with which this Commission is familiar.

"See Minister of National Revenue vs. Saskatchewan Co-operative Wheat Producers Ltd. 1930 S.C.R. 403.

This rule apparently applies even though part of the returns are deducted from payments as 'commercial', 'elevator' or other reserves.

"In considering the foregoing judgment of the Supreme Court it must be remembered that the court was concerned only with the question:

'Was there taxable income within the definition of the Act, received by the company?'

"The problem:

'Should the definition of taxable income be changed or the act otherwise amended to insure that the cooperative or its members or patrons pay a corporation tax.'



is a very different one from that involved in the Saskatchewan case."

As I have read the evidence so far, we should remind ourselves every now and then that it is not enough to explain why these companies are not liable to taxation under the existing law. From what I know of Mr. Fraser Elliott's Department, they are able to look after that. The problem this board has before it primarily, assuming that they are exempt under the existing law, is to determine whether or not that law is in principle fair in its application and to say whether it should be changed. That is the essential thing to be considered and it was not considered by Mr. Justice Lamont in the Saskatchewan case.

"In contrast with this decision is that of The Fraser Valley Milk Producers Association - 1929 S.C.R.435.

"In that case the facts were similar to the Pool case, except there was a cash dividend not exceeding 8 per cent per annum paid to the shareholders as such."

In the case of the Fraser Valley Milk Producers Association Sir Lyman Duff gave the decision; and in both these cases there is a detailed description of the manner in which these cooperatives work and how the reserves are created. From that standpoint they will be interesting to this Commission for the information that is given to them.

"It was held that moneys so paid were taxable as the money was paid in proportion to the shares held, and not in proportion to the produce supplied."

As I recall that case, that was only a minor portion of what under my submission should be taxable.





It was something that happened to stick out like a sore thumb, which should be got at under the existing law.

"The reasoning of this decision was undoubtedly sound in determining what was taxable income under the Statute, but it too did not deal with the problem of what the Statute should have provided in order to secure a fair and just application without discrimination.

"The court was not there asked:

'What should be defined in the act as taxable income when profits are merged in the purchase price or camouflaged as reserves or patronage dividends?'

"In considering this latter problem it is difficult to see why there should not have been a law imposing a tax on both these big business enterprises, and why the basis of the law should not have been on a wider and more permanent basis than the haphazard or incidental retentions of reserves or the fact that moneys had been distributed to patrons in proportions based on shares held, rather than produce supplied."

When I come to offer suggestions with respect to amending the legislation I shall emphasize that the mere taxing of the margins that happen to exist under these operations is a very precarious thing for either the government or competitors to trust to. Mr. Elliott brought that out today in one of his questions in which he asked the witness, in connection with certain margins, whether he could not accomplish his purpose by whittling them down. That could be done. There are some, representing the same side that I am on in this matter, who seem to be satisfied



with the idea of taxing the difference between the first payment and subsequent payments. That is all right as one method to be adopted by the Minister in getting at these things; but my clients do not wish to nail their colours to the mast and say that will do, only to find that their whole scheme could be defeated by some change in the carrying on of the business of co-operatives.

Very definitely that could be done, and done quite properly. If I were advising clients I would not hesitate to say that corporations and individuals are entitled to conduct their business in such a way as, not to escape legitimate taxation, but to avoid taxation, conforming to the law as it is.

"In 1930 after the judgment in The Fraser Valley case the Income Tax Act was amended by the provision, now section 4 par.(p), and made retroactive for 1929. Since that amendment the Fraser Valley Milk Producers Association has been exempt from taxation. Its subsidiary, The Associated Dairies Ltd., however, continued subject to income taxation and it is understood that in the taxation year 1943 it paid over \$200,000.00 Income and Excess Profits Tax."

I should say "about" \$200,000.

"Thereafter the Associated Dairies was merged into the Fraser Valley Milk Producers Association, and it is believed that this big business organization now claims to be exempt from income taxation in all its activities."

That has been confirmed by Mr. Macken.



"More detailed information is furnished in the schedule in this brief, including a statement of the practice of the Fraser Valley Milk Producers Association in regard to interest on capital.

"It is submitted that if the Fraser Valley Company is permitted to accomplish its purpose it will be a striking example of the folly and unfairness of the existing law."

That is not a reflection on the Fraser Valley Company; the word "folly" is directed to the policy of the country that permits it to continue.

"It will be also a striking and visible example of a case where in one year legitimate income taxes are paid and in the next year are avoided on the plea that although the same patrons get the money there is no taxable income."

I particularly refer to my examination of Mr. Macken this afternoon in that connection. I would ask the board to read that carefully because it is as strong an argument as anything I can add at this time. There is not a single difference either in respect of what is owned -- trucks, machinery and so forth -- or as regards service rendered the public or anything else. The only difference is that by change in the corporate set-up \$200,000, which was unquestionably legitimate taxation on profits, is merged in the purchase price and goes to those who are the ultimate beneficiaries in all corporations, namely, the shareholders or the members. I will deal with that in greater detail in a minute. So much for the general principle of no income as a ground for exemption.





"2. If the dairy under class Two 'A' has income it may still be exempt under the provisions of Sect. 4 (p) as being 'organized and operated on a co-operative basis'.

"In this connection Mr. H. Heward Stikeman says:

'The test of a true cooperative qualified for exemption under this section is:

'1. It must be a cooperative of primary producers. Producers of manufactured goods or articles are excluded. For example, a cooperative organized to buy poultry or eggs from producers and then killing and dressing poultry or grading the eggs for marketing would not qualify.

'A cooperative to process and sell lumber by buying trees and then manufacturing such trees into marketable lumber would not qualify.

'2. The proceeds from the sale of the products of its members must be paid back to such members on a basis of quantity and quality (less expenses and reserves). In other words, it must only act as the agent for the member, and must distribute earnings on a patronage basis.

'3. Where supplies are purchased for the use of members they must be turned over to the members at cost (plus expenses and reserves). There must be no profit arise from such transactions.

'4. The gross business done with non-members must not be in excess of 20 per cent of the total business of the cooperative.

'If the association fails to meet any one of these requirements, the Income Tax Department will rule





that it fails to qualify for the exemption.

'The governing words of this paragraph are:

"which organizations

(a) market the products of the members  
or shareholders.....

(b) purchase supplies and equipment  
for the use of such members....."

'The verbs "market" and "purchase" appear here to be restrictive in the sense they give to the paragraph. Difficulty will arise where an organization which otherwise qualifies for the exemption hereunder, not only markets or purchases, but undertakes as well a course of processing of the article to be marketed. Examples would be milk cooperatives which process fluid milk into butter and cheese, apple cooperatives which convert the apples into vinegar or fruit cooperatives which can or pack the crop to be disposed of. In such cases it will be necessary to determine whether the act of processing in each case takes the organization out of the exempt class.

'A reasonable test would appear to be that the exemption will only be destroyed by the act of processing where such activity cannot be said to be ancillary to the marketing of the product, or where it adds new ingredients to or alters the inherent nature of the article.

'For example, if an organization otherwise exempt hereunder receives primary products from its members and thereupon enters upon a manufacturing process by which it procures substantial quantities of other materials which it incorporates into the finished article to



produce a distinctly different product, or one of which the primary product is a mere fraction, then such an organization could not be said to be marketing the product of its members and the exemption would not apply.'

"Dominion of Canada Taxation Service p.4-752,3."

Mr. Stikeman is a member of the Income Tax Department. He is a lawyer who has given a series of lectures at Toronto University and has published one or two books, and this extract from his opinion is submitted for the consideration of the Commission. I put it in because, while not authoritative, it is certainly informative.

THE CHAIRMAN: And persuasive.

MR. FARRIS: Yes; and it is an expression of the Departmental viewpoint, although he disclaims anything of the kind in his publication.

"Under Mr. Stikeman's test it seems to the writer that the operations of a dairy in processing milk are not merely 'ancillary to the marketing of the product'.

"The facts are that processing costs as much (or more) as the production of the primary article by the farmer. However this may be, the present submission is that the cooperative dairy is not a true farmer co-operative, its business is distinct from the primary producer and should be taxed. The Statute should make this abundantly clear.

"Two 'B' This class deals with 'patronage dividends' payable to non-members. These are exempt from taxation under the Act, if they do not exceed 20 per cent of the total volume of the produce supplied to the company. On what principle this exemption is justifiable



is not apparent. .

"It is earnestly submitted that there is no justification and the law should be changed. It is open to serious abuse."

I am not sure whether I have correctly defined patronage dividends. That is a lawyer's understanding of it and should be accepted in that way. I am instructed by accountants that it is impossible for the Department to ascertain what percentage of the business is really outside business and what is strictly membership patronage. While that should not be a reflection on the ordinary operation, there is no business in which there is not somebody who, if he can, will take some advantage. At least I have not discovered any yet.

"Two 'C': Cooperatives providing for reserves:

"The reserves are used for the expenses and business purposes of the company and for equipment, machinery and buildings to meet present and expanding requirements. The facts related in the two Supreme Court cases above cited furnish good examples of these reserves. Under Sec. 4 (p) (a) of the Income War Tax Act they are exempt from taxation. No better device could be conceived for giving the cooperative an unfair advantage over its less favoured competitor. While the struggling non-cooperative is paying the larger part of its dividends to the Government, the happy warrior 'organized and operated on a cooperative basis' builds up its reserves untouched by the hand of the tax collector and applies them to out-distance its tax burdened competitor."





If the Commission is not satisfied with my prediction, that that is true, I believe it will be before its inquiry is completed. I continue:

"Three: Ordinary companies distributing their profits as dividends: These are subject to the full burden of corporation income and excess profits taxes.

"If these companies are forced to bear this burden in competition with tax free cooperatives there can be only one result. The cooperatives are now not only in equal enjoyment of all the corporation business activities from which profits are made, but they are able also to convert into building and other reserves the profits which the non-cooperative companies must pay out in taxes. The result is coming fast -- the non-cooperatives will be destroyed or absorbed and their competitors will be a tax-free monopoly; this, not as the result of superior business methods, but because the company's profits go to the Government and the cooperatives into tax-free reserves and patronage dividends."

Next is the third submission under the heading "The Income Tax as applied to Corporations". Now I am entering upon what I regard as the sound theory on which we should in the end approach the question as to how to deal with cooperatives. The brief here reads:

"III. The Income Tax as applied to Corporations:  
Reasons for the tax and its incidence:

"Before dealing with the reasons adduced for exempting cooperatives from corporation income taxation it is proposed to examine the tax and its incidence.



"1. After Confederation the Income Tax was tacitly regarded as belonging to the provinces. It was introduced as a federal tax during the last war as a war necessity. Sir Thomas White, then Minister of Finance, spoke rather apologetically of the invasion of the provincial field.

"2. It is now maintained and expanded for the same reason.

"3. This form of tax is justified:

"(a) because the State needs the money;

"(b) It is based on the theory that those should pay who are able -- income is proof of ability to pay;

"(c) It is asserted that the tax is fair in its incidence and to be justified this assertion should be valid.

"(d) As a war measure it is almost indispensable as a method of economic control in preventing inflation. It is believed that the Board may secure full supporting testimony of this important function of the tax from the proper officials of the Wartime Prices and Trade Board and others of the Finance Department.

"IV. Income Taxation as applied to Corporations:

"One: On whom does the Corporation tax fall?

"It is submitted that a corporation tax falls only on its shareholders and not on the corporation as such.

"1. It is true that for business purposes a corporation is in law deemed to be a corporate person separate and distinct from its shareholders.

Salomon vs. Salomon 1897 A.C. 22.

"2. Yet in reality a corporation is only a highly organized form of partnership from which the element of



personal liability has been extracted and the corporate entity theory has been substituted.

"3. The corporate entity theory, however, has its limitations:"

There was a law dealing with alien enemies, and the Dailmer Company had contractual relations with the Continental Tyre Company, which was a British company, though all its shareholders were Germans, and a plausible argument was made that this was a British company subject to British law. Salomon versus Salomon was cited. The House of Lords refused to accept the doctrine put forward. I give these two quotations:

"An incorporated company cannot with propriety have such terms applied to it as if it were a mind subject to emotions or passions or a sense of duty. It is a creation of law convenient for the purposes of management, of the holding of property, of the association of individuals in the business transactions; in short of all the purposes and with the limitations and remedies set forth in the Companies Act.'

Lord Shaw in Dailmer v. Continental Tyre Co.  
85 L.J.K.B. 1345.

'Under these circumstances it becomes material to consider what is this thing which is described as a corporation. It is in fact a partnership in all that constitutes a partnership, except the names and in some respects the position of those whom I shall call the managing partners.'

Earl of Halsbury: Ibid p.1338."

I have put in a case before the Privy Council, coming from Canada, in regard to direct and indirect





taxes in which it was laid down clearly that a tax is just as much a tax if collected in advance before it gets to the taxpayer as if it were allowed to go to the taxpayer and were then extracted from him. I go on:

"4. The object of a business corporation is gain, but it is not gain for the corporation as such. It cannot use the gain for food, drink or clothing. It cannot spend it in the pursuit of pleasure or riotous living or (without the unanimous assent of its shareholders), for gifts. It has in itself neither the capacity nor the legal authority to indulge in the enjoyment of its income. Its sole purpose is to earn dividends for distribution among its shareholders.

"5. It must follow that the incidence of a corporation tax falls on the shareholders. The tax is collected at its source, but this does not affect its incidence. A tax taken in advance of receipt of funds falls on the recipient exactly as if taken after.

"(See Rex. v. Caledonian Collieries 1928 A.C.362)

"Its incidence falls on the shareholders as it would if they were ordinary partners in the business."

I would emphasize that because of the questions asked and answered here. To say that this \$200,000 reaches the pockets of the individual members of the association and is there taxed does not in any way meet the question of corporation tax and excess profits tax. Continuing:

"Two: Why is there a Corporation Income Tax and why a Rate based on its aggregate income?"

"1. This tax is imposed in addition to heavy personal taxes on the individual. It might well be argued that if the incidence of a corporation tax falls on the individual shareholder, the rate should be based on his





individual income and not on the aggregate in the corporation.

"2. One justification offered is that the shareholders have the benefit of the corporate franchise and the effectiveness, the power, and the economy of operation resulting from united effort and combined capital."

If that is so in the case of the ordinary corporation -- and, from what we have heard here, in some cases more so -- it is true in regard to these cooperatives. Continuing:

"3. These reasons are good in a measure, but they do not justify the excessive rates prevailing and particularly the 100 per cent Excess Profits Tax. These must be justified, if at all, on the simple ground that the Nation needs the money, and it goes where the money may be found.

"For the purpose of this submission it is enough to state that the tax is not a theory, but a fact, and it is the reality which must be considered. Theory or no theory the fact remains that when the tax is imposed it is the shareholders or patrons on whom the incidence falls, and when the company is exempt it is they who are relieved.

"V. It is submitted that the 'alleged' co-operative should be taxed to the full extent that its competing non-cooperative company is taxed.

"One: The fact that its profits go out in the guise of added purchase price is no reason why the incidence of the tax should not fall on those to whom the rewards of the corporation business activities go, the



same as it falls on shareholders to whom dividends are payable.

"A. The cooperative is in business for the benefits of the corporate activity equally with its competitors."

It is not a sound statement to say that the corporation is in business for the benefit of the corporation. It is not. It is in business for the benefit of the shareholders, for those to whom the dividends go; and the cooperative is in business for its members or, to use a more accurate term, its member patrons. Continuing:

"The following quotations show how fully this is recognized:

'Cooperative associations are formed for the same reasons as other business enterprises. In a co-operative however the financial benefits accrue to the patrons, while in a commercial enterprise they accrue to those who have invested their money in the business.'

'Legal phases of Co-operative Associations  
by L. S. Hulbert.

'Chief, Co-operative Bank and Co-operative Research Sect. Farm Credit Division Office  
Solicitor U. S. Department Agriculture.

'The principle of dividing the net earnings on the basis of patronage rather than on the basis of capital invested is perhaps the most important. Under profit business the aim of the management is to have a margin between the cost of operating and the selling price. Such a margin is known as profit and goes into the hands of the owners. Under Cooperation any margins



or overcharge between the operating cost and the price advanced at the time of the transaction is divided up at stated periods and rebated to the members in direct proportion to the goods purchased or the commodity provided by each member. Thus it is that the co-operative associations operate on a cost or non-profit basis.

'Summarizing we may say that the aim of co-operation is to organize society in such a way that all the people who provide the business shall after sharing the responsibilities of ownership and control share equitably (according to patronage) the benefit of service and earnings.

'H. H. Hannam: National President Canadian Federation of Agriculture.

'Co-operation The Plan of Tomorrow Which Works Today'

(Published by United Farmers Ontario  
7th Ed. 1943 pp. 18,19.)

'Explain to the business man that there is a third alternative (as well as fascism and communism to capitalism) and that peoples cooperatives do offer a way of doing business in which the making of things the people need is not subordinated to the making of money and he will be interested.

'Hannam at p. 44.

'If the purpose of the State is not to stimulate competition, but to destroy capitalism, then this tax condition is justified.

'Cooperation provides us with a method of conducting business on the basis of service to all rather than on the basis of profits to the few and with earnings





which accumulate going to the people who use the business rather than to those who own it.

'Hannam p. 71.'

"The foregoing may be a good reason for supporting cooperatives but is no reason why 'the earnings' should escape taxation."

I call your attention to the fact that these business enterprises that appear before you are all very careful to repeat that they are non-profit making. This emphasis on non-profits would not be of any interest to the members of these organizations if there were not a reason for it. I do not know of any reason why we should hear the careful assurance from each person identified with one of these associations, that it is non-profit making, but for the question of their being taxable. I do not know of any other principle which is involved unless it is to emphasize that it is not profit on capital.

But, from the standpoint of taxation, what difference does it make whether it is investment on capital that gets the reward or the activities of producers who are seeking profit for their produce?

THE CHAIRMAN: In other words, it does not matter where the profit comes from?

MR. FARRIS: That is my submission; and I say that profit -- not from the standpoint of some technical definition but from the standpoint of that upon which the State ought to impose taxation -- is not changed by a change in the form of organization. Again, I do not want to harp on the Associated, because as a matter of

1891

1891

1891

1891

1891

1891

1891

1891

1891

1891

1891

1891

1891

1891

1891

1891

1891

1891

1891

1891

1891

1891

1891

1891

1891

1891

1891

1891

1891

1891

fact some of my clients are more concerned with some of these smaller organizations that are growing up than with the Associated. But it is a mighty good illustration of the frank way in which the facts were given by Mr. Macken. One year you have this organization producing money which unquestionably is profit and taxable to the extent of \$200,000; the next year you have that organization, carrying on the same kind of business, rendering the same kind of service to the public, and with the same officials, and that money goes, not to the Treasury but, as an added price, to the men who have set up this business organization.

I say it is only in that sense that this board should be concerned with the idea of profits. Is it something which is commensurate with what was done before and if practicable should be taxed? I continue now with "B" on page 13.

"B. The Shareholder in a cooperative enjoys all the benefits of combined effort inherent in the business activities of a company."

I would say the trend of the evidence here is to emphasize that. Continuing:

"It is immaterial whether it is called a dividend or an addition to his sale price. In fact he often has a greater benefit. He receives for his patronage what his competing shareholder only receives for the investment of capital."

In other words, he makes no additional contribution to get it. In one case an additional contribution of money is made; in the other he merely takes advantage of a situation, quite legitimately but not as a



basis on which to ask for income tax exemption.

"In addition there are many incidental tax regulations escaped by the cooperative: viz., restrictions on advertising, wages, depreciation, etc.

"C. The moral tax obligation is the same whether the profit comes to the recipient as part of his purchase price, as a patronage dividend, or as a dividend on stock. The test of this is: suppose all businesses were operated by cooperatives. Every patron would then pay taxes or there would be no taxes."

It is true that one witness said there are other sources of income, but when you look at an analysis of the income tax returns you find some interesting things. For instance, there is an interesting analysis in the last copy of the Chartered Accountants Magazine, for January or December, I forget which. You will find there a full analysis of the different forms of Federal taxation. I got it the other day, but I am sorry I have not got it with me at the moment; otherwise I would quote from it. Continuing:

"It is submitted there is no justification in principle for the condition which requires the shareholder of one dairy company to bear the full burden of corporation taxation and his competitor, enjoying equal corporate benefits, to pay nothing.

"D. The money is made in each case by the sale to the consumer: (See Rowlatt J. in Commissioners of Revenue vs. Vale Co-operative Ltd. 1925 - 12 Tax

Cases 891: 'The Profits are made by the selling of

the article not by the buying of it at all.')

The farmer cooperative gives the same service to the





consumer as his competitor. Why should he not equally bear his just share of taxation? Why should he be permitted to use the avoidance to destroy fair competition?

"E. The fact that a shareholder has invested his capital in the company is no reason to overburden him with all the taxes. The time may come when a Socialist State will repudiate the right of capital to make profit. So long as capitalism is recognized, it is entitled to a return, and not to be destroyed by unfair competition made possible by unjust taxation. It is only a mockery to say that any measure of free enterprise prevails, under conditions where the patron of a farmers cooperative utilizes his exemption from taxation to destroy his competitor."

I am not happy about that expression. I do not mean to use it maliciously or improperly; but such competition is obviously unfair. Continuing:

"Two: It is submitted there are no valid reasons which justify the exemption of alleged co-operatives:

"1. The assertion that no income is earned:

"This may be a good legal argument as the law is now. It is not a taxation argument why a wider concept of income should not be incorporated into its statutory definition, or into the operative parts of the Act.

"The fact that income does not appear as such in the hands of the cooperative does not change the fact that its substance reaches the patron of a co-operative as profitably as it does the shareholder in a dividend. If the shareholder bears the incidence in





the one case the patron should do so in the other. In either case the return comes from a business activity carried on by a corporation after the commodity has passed from the primary producer."

I wish to emphasize those words. Continuing:

"2. It may be said that inasmuch as the entire return goes to the patron as part of the purchase price it is impossible to earmark any portion as taxable in a way comparable with the normal income tax on profit. It is conceded that the difficulty exists, but it is a difficulty not from a difference in principle but because of a confusion or mingling of two different funds as one."

I say that the Fraser Valley Milk Producers Association today is mingling what it formerly got as the going purchasing price of its commodity with a return which formerly was recognized as profit subject to taxation. These two things are now mingled in one. Continuing:

"This is a difficulty of the cooperatives' own creation and the objection does not come with good grace from its originator. The situation is well illustrated by the case of The Fraser Valley Milk Producers Association and its absorption of the Associated Dairies Ltd. This will be discussed hereafter. In any event it will be submitted under a later heading that the difficulty can be overcome as effectively as is done in many cases of attempted tax avoidance now dealt with in the Act and in its administration.

"3. The claim that the policy of the Act is to give needed assistance to farmers by permitting them to



cooperate for their own advantage: There are several answers -

"(1) As has already been indicated the profit we are seeking to tax is not a farmer's profit as such but a corporation profit made under a corporate franchise in a business enterprise distinct from farming and which under tax exemption is allowed to fatten and grow into big and bigger business."

You recall what Mr. Macken said -- that granted that Associated Dairies had continued, and granted that the other manufacturing activities had been also put in the control of a separate limited liability corporation; notwithstanding that, the Fraser Valley Milk Producers Association, which would then be, in my submission, a pure farmers cooperative, still had many benefits which it could confer on its members, and it could keep going under these circumstances. My instructions are, so far as the complaint of unfair competition is concerned, that there would be no objection to the pure cooperative if divorced from all these processing and manufacturing activities which ought to be in the hands of companies and ought to pay income tax. Continuing:

"(2) The exemption is a concealed subsidy with all its evils."

It is rather interesting to be able to say that to the farmers, and very justly so; for the farmer's complaint has always been about the concealed subsidy in custom duties -- that they have to pay these benefits, particularly to eastern manufacturing enterprises, and that such benefits are really concealed subsidies. If there is anything in that criticism, the thing complained



of is not corrected by adding another one to that group.  
Continuing:

"(a) If a subsidy is paid the State is entitled to know how much is being paid and to whom it goes.

"(b) The subsidy does not go to the farmer most needing its benefits, but to those who are well established.

"(c) No 'alleged' cooperative is really a pioneer. It is found in well established farming communities and generally where non-cooperatives are already giving service.

"(d) The subsidy is unfairly granted at the expense of competitors. The reward to the co-operative is not only tax exemption, but the opportunity and the means furnished to outdistance its handicapped competitors."

MR. ARNASON: May I refer back to clause (b), which reads: "The subsidy does not go to the farmer most needing its benefits, but to those who are well established." Would you mind explaining that?

MR. FARRIS: Consider the case of the Fraser Valley Milk Producers Association absorbing Associated Dairies -- and I am talking now not of pure farmers co-operatives but of cooperatives which have grown into proportions of such magnitude as to talk in millions and to engage in processing and manufacturing activities of that kind, which are beyond the pure farmers cooperative. You are likely to find those connected, not with the pioneer farmer but with farmers of the type you have seen here today, who are men of a very superior stamp, among those most blest in the community. While that is





a good thing, still, if you are bonusing, I say that there is nothing in the circumstances of men of that kind to justify a bonus. That is what I meant, but I do not wish to labour it unduly. Continuing:

"The claim may be made that the success of the cooperative is proof that it is more efficient and gives a better service to the public than its competitors. It is submitted that, if made, this argument is in cynical disregard of the realities. For instance, is the work of the Associated Dairies Ltd. better performed as part of the Fraser Valley Milk Producers Association than it was when it was a subsidiary?"

Mr. Macken has assures us it is not. Continuing:

"It is under the same roof, the same management, and operates the same machinery. As said by Mr. Justice Rowlatt, the profits are made by selling to the public. It is believed there will be no evidence before this Board that during the last year the Fraser Valley Milk Producers Association has given a better service to the public than was given the year before by the Associated Dairies Ltd., which entitles the Fraser Valley Milk Producers Association to an annual subsidy of over \$200,000, or any part thereof.

"(4) This submission is not intended to attack farmers cooperatives or to question the service rendered to the producers. If by their combination they can add the middleman's profits to the producer's price, let them be free to do so. If they can serve the purchasing public as well, or better, than their competitors and by so doing get the business, by all means let them be free to do so."



I should add, after what Mr. Macken has enumerated, if they can accomplish all that, let them. But when they step out of that field into these other activities; then I say they ought to carry their weight in paying taxes. Continuing:

"The non-cooperative dairies ask no favours, but only for fair treatment. If one pays a tax, the other should too.

"VI: Statistics in Support of this Submission:

"1. The order-in-council appointing the Board directs an enquiry into 'the organization and business methods and operations of the said cooperatives.'

"2. It is believed that not until completion of this part of the inquiry will all facts and figures be disclosed supporting the complaints made in this submission. Much of this information can be secured only by the Board from the officers and records of the various cooperatives.

"3. The statements in the Schedule are given to assist in the Board's inquiry. They are believed to be accurate, but incomplete."

That concludes my first submission, namely, that there is unfair discrimination in taxation. The second one is 'Against public interests.'

THE CHAIRMAN: You will confer with Mr. Macken in regard to the figures set out on page 18?

MR. FARRIS: Yes.

THE CHAIRMAN: And you will submit a memorandum?

MR. FARRIS: Yes. I will give it to Mr. Parker. Now the Third Part, with reference to the proposed amendments, I wish to read very carefully. First, it is sugg-



ested that section 4(p) should be repealed. The brief states:

"THIRD: PROPOSED AMENDMENTS:

"1. True Co-operatives:

"Section 4 (p) of the Income War Tax Act should be repealed and a new section should define true cooperatives and should limit the exemption from taxation to this class. It has already been outlined what should constitute true farmers cooperatives. Other types are not dealt with in this submission. They are set out in Sec. 4(p) paragraph one. It is submitted that 'dairymen' should not be again included. Dairy farmers are included in 'Farmers Cooperatives'. 'Dairymen' might include cooperative dairies processing milk and making butter, cheese, etc."

According to my submission, they should not be exempt. That is a manufacturing institution. A dairyman is a man who owns a lot of milk cows producing milk.

I come now to the proposal that section 3 of the Income War Tax Act be amended in the manner set out. This is to deal with what I term alleged farmers cooperatives, and what I am saying about that would apply to other types of cooperatives there are not strictly fishing or fruit-growing. I only mention that because in the end we are all in the same boat.

This is only a proposal to illustrate what can be done and I know it will run up against a great deal of criticism, which of course is desirable, because I would not expect that it would emerge in the form in which it now appears. But it can emerge with





the same principle there to meet the facts. I quote:

"II. Section 3 of the Income War Tax Act, which deals with taxable income, should be amended by adding Section (i);

"Where a cooperative in its returns shows no income and its members or patrons are receiving returns or the benefits thereof, whether as part of the alleged purchase price or otherwise, which are comparable to taxable income in the case of an existing or hypothetical non-cooperative company in similar business, the Minister shall estimate what would have been the profit or gain of the cooperative if the returns had been received as income."

Take as an illustration the Fraser Valley Milk Producers Association. There would be no more arbitrary exercise of power in this case than is found in many places in connection with the present Income Tax Act, and there would be no difficulty in saying what the income of the Fraser Valley Milk Producers Association would be. Continuing:

"The amount so determined shall be deemed to be income of the cooperative and as such liable to Income and Excess Profits Taxes. Without restricting the generality of his powers such income may be determined by the Minister in cases where it appears to be adequate and equitable so to do by taking the spread between the price at which the product is sold and the amount paid to the producer at the time title and/or possession to the product is received from the producer, less necessary expenses; and, in cases where an income determined in this manner is not adequate or just, the





Minister shall adopt such basis as will best determine the income and, for this purpose, the Minister may define the portion of the selling price to be income whether the same has been paid to the members or patrons as purchase price or in the form of patronage dividends or otherwise and in so doing the Minister may take into consideration the fair rental value of land, buildings and machinery owned and operated by the cooperative together with fair return which ought to be derived from labour employed by the cooperative,"

I understand that in many business institutions today, where profits are not brought in, which the department thinks are proper, it figures what the turnover is, what the business ought to show, and it assesses on that basis. Continuing:

"....and may estimate what is fair return on the capital invested in the assets of the cooperative, whether the same is represented by shares, participation certificates, member deposits, contributions or loans, or in any other form which may in his opinion be designated as the equity of the members in such assets.

"The amendments submitted above indicate the type of legislation proposed in line with the principles submitted herein. These proposals will require further revision by the taxation experts of the Department. It is believe that in substance they are sound and practical and if the problem is approached with the same diligent zeal to make it effective as characterizes other activities of Departmental Officials there will be no difficulty in making the amendments valid in form and effective in operation.



"The proposed discretion conferred on the Minister is in line with many existing provisions of the Act. Reference is made to the following sections: Section 3 (2) (a); Section 5 (a); Section 6 (d) (i) (n); (2) (3) (4); Section II (5); Section 13; Section 21 (3); Section 23; Section 23 A. and B. Section 26 (2); Section 27 a (2); Section 32 A (1) and B. Section 88 (7); Section 89 (2), Section 10 (2).

"This presentation has been based on the assumption that a Corporation Income Tax is justifiable when it is not discriminatory. It is believed that the present Act can be amended to operate fairly. If it is found that this cannot or will not be done and its discriminatory effect is to remain, the tax should be branded in its true character as discriminatory, unjust and inadequate. If it is so revealed in its true character, a sense of justice and an aroused public opinion will demand its repeal so that all income tax will directly fall on all individuals beneficially receiving income. Failing effective amendments, in this way only will discrimination be eliminated and equality of burden be restored.

"All of which is respectfully submitted,

J. W. de B. Farris,  
Counsel for Jersey Farms Ltd.  
Turner's Dairy Limited  
Creamland Crescent Dairy Ltd."

Document filed with brief:

Schedule re: I. Fraser Valley Milk Producers' Association and Associated Dairies Limited.

II. Richmond Milk Producers' Limited

III. Melrose Dairies Cooperative Association.

IV. Island Farms Cooperative Associatio.



MR. MACKEN: In view of the fact that Mr. Farris did not assume responsibility for submitting proofs, will an opportunity be given, Mr. Chairman, to deal with this brief before you leave the community?

THE CHAIRMAN: How would you propose to deal with it?

MR. MACKEN: We are denied the right to cross-examine the witness.

THE CHAIRMAN: I have no doubt Mr. Francis proposes to deal with the brief. I take it, Mr. Farris, you realize that you went a little beyond the mere reading of the brief.

MR. FARRIS: Perhaps I did, Mr. Chairman.

THE CHAIRMAN: You submitted arguments based upon the brief. Does Mr. Francis want to have an opportunity of replying?

MR. FARRIS: From my standpoint, there is no objection.

THE CHAIRMAN: I would not think so.

MR. PARKER: There is a misconception in this matter, Mr. Chairman. Mr. Francis inquired about a copy of the brief on behalf of Fraser Valley. He does not propose to reply on behalf of Fraser Valley, but Mr. Macken desires to do so himself.

MR. FRANCIS: I am not retained by the Fraser Valley Association. I made a request on behalf of the other cooperatives whom I represent. That request was not made on behalf of the Fraser Valley people.

THE CHAIRMAN: Mr. Macken, I believe, made that request himself.

MR. FARRIS: I did not make this submission in





in the expectation that there would be no reply.

THE CHAIRMAN: The argument put forward by Mr. Farris concludes these two briefs for the moment, I take it.

MR. PARKER: Yes, Mr. Chairman. As I understand it, this brief is completed. Mr. Farris has made his comments and we are ready to proceed with the next.

THE CHAIRMAN: I would suggest that Counsel again get together on that question.

MR. PARKER: Possibly Mr. Francis and Mr. Macken can decide who will reply to Mr. Farris.

THE CHAIRMAN: That is satisfactory. I think that will do for today.

MR. PARKER: It is suggested that tomorrow morning we begin with the brief submitted by Mr. Tupper, which will be followed by Mr. Locke's presentation.

The Commission adjourned at 4.30 p. m.

.....



Wednesday,  
January 17, 1945.

The Commission met at 9 a. m.

MR. PARKER: Mr. Chairman, my suggestion this morning is that Mr. Macken, if he so desires, ought to be given a reasonable length of time to make any comments he may wish to make by way of reply to the submission made yesterday by Mr. Farris.

THE CHAIRMAN: Is Mr. Macken here?

MR. PARKER: I do not think he is here at the moment. It may be that he has been delayed a little.

THE CHAIRMAN: I understand that all that remains, so far as these two briefs are concerned, is a reply from Mr. Macken. That will close the briefs. When he comes we will hear him.

MR. PARKER: In accordance with the tentative arrangement that has been made, subject to your approval, Mr. Chairman, I suggest that Mr. R. H. Tupper, K. C., on behalf of certain feed companies, deal with the brief which he has filed with us.

THE CHAIRMAN: We are ready to hear Mr. Tupper.

MR. TUPPER: If it pleases the Commission, the submissions I am about to make are on behalf of the Brackman-Ker Milling Company Limited, Buckerfield's Limited, United Milling and Grain Company Limited, and Scott & Peden Limited. I should like to read this brief, which in some sense is argumentative, though it does contain certain facts, and then call Mr. Buckerfield to prove the facts set out in the brief and to develop them with the aid of some figures which he will offer you. It reads as follows:

"1. The four corporations on whose behalf these submissions are made carry on active business in



in dealing in farm produce in British Columbia, principally in feed for cattle and poultry. Each of them has other substantial lines of business with farmers, as for instance, the sale of seeds, fertilizer, etc. Each of them renders service to the farmer in giving technical advice and extended credit. Together they represent the greater part of such business which is done in British Columbia by other than cooperative associations. Each of them was incorporated under the Companies Act either of the Dominion of Canada or the province of British Columbia and is subject to the full measure of taxation under the Dominion Income War Tax Act and the Excess Profits Tax Act 1940; each of them is engaged in a line of business in direct competition with cooperative associations.

"2. These submissions relate solely to Clause 1 (c) of the said Order-in-Council which directs inquiry into 'The comparative position in relation to taxation under the said Acts of persons engaged in any line of business in direct competition with cooperatives', and to representations as to 'a just fair and equitable basis for the application' of the said Acts to co-operatives; your submissioners cannot assist the Commissioners with respect to the other matters for inquiry under the said order.

"3. In limine it is stated your submissioners have no criticism to make of the true cooperative method of doing business. They submit that this consists in a combination of persons purchasing what they require (naturally in a large quantity, and thus at a lower price than would be the case in an individual purchase), paying





for these requirements from their taxed incomes and benefitting by their combination either in the form of a low initial price or in a bonus representing the saving in price made possible by their combination. For reasons which will be given later it is thought that however proper this true cooperative method may be, and however advantageous its results may be to those profiting by such combination, it is not of the same advantage to the whole community as the usual corporate or individual method of doing business where success depends upon ability, initiative and industry in competition, rather than upon a special advantage to the purchaser. Thus it will be submitted that there is no national economic good reason to encourage by subsidy or otherwise true cooperative methods. But these submissions will be primarily directed to show that under our subsisting laws, subsidies are in fact paid to so-called cooperative societies which have carried the advantage of combination far beyond the point where it could justly be said that mutuality in the buying and selling of property exists.

"4. The only objection taken by your submissions to cooperatives, operating either with real or pretended mutuality, is in the subsidies now received by cooperatives in the form of exemption from taxation. Thus it seems proper to advance the opinion, briefly, that the elimination of the subsisting taxation upon distributed corporate profits which are taxed again when received by the recipient would constitute a just, fair and equitable method of ending the present unjust discrimination against corporate business not only





vis-a-vis cooperative societies, but also in respect to partnership and individual business. That the danger to the country inherent in this discrimination has not before been more apparent is due to the comparatively recent date since when this discrimination has been very serious in amount, and because during that time the imminent danger of war has made economic dangers seem innocuous. In 1919 only \$9,349,000 was realized from income taxes both corporate or personal. In the year ending 31st March 1944 corporations alone paid in Income and Excess Profits Taxes \$780,097,000 or 48 per cent of all Income and Excess Profits Taxes paid in Canada. Only in 1938 did these corporate taxes reach \$100,000,000. What was unremarkable in 1919, constituted nearly twenty years later, a serious matter when it had increased more than tenfold. In the last six years the increase amounts to about eighty-four times all income taxes raised in 1919. In addition to the injustice of double taxation the following disadvantages to our national economy arise through the penalty thus imposed upon corporate activity.

"(a) The tax is, in a sense, an indirect one not realized by the individual who bears it.

"(b) It is a levy at the same rate upon those capable and incapable of bearing the burden of heavy taxation.

"(c) Heavy corporate taxation discourages corporate initiative and the development of our resources in material and human endeavour, by a suitable method, and one which has in the past century done more than any other to further such development.



"(d) Such taxation favours development with borrowed money rather than with venture capital. Thus it favours the more precarious forms of financing.

"(e) Its elimination would result to some extent in lower prices to the consumer, in higher wages and greater earnings to the shareholder or in one or more of them; thus increasing the returns from the personal income tax.

"(f) Corporate taxation removes the incentive to investment in such undertakings. Those with sufficient capital may employ it in partnerships or individually. But the capital which has made possible the greater part of our material progress has been largely furnished by those incapable of personally conducting any large undertaking. History can furnish examples of the result of taxation which because of its ease in collection, has been imposed inequitably and has resulted in the destruction of what the tax gatherer should cherish -- the sources of wealth and employment.

"5. The 'Co-operative Associations Act' of British Columbia (R.S.B.C. 1936 - 53) by Section 13, directs that the profits from the business of an association shall be apportioned as follows: (a) by setting aside not less than 10 per cent of the net profits as a reserve fund until it is equal to the following percentage of share capital:

|                      |                     |
|----------------------|---------------------|
| \$25,000 or less     | 30 per cent thereof |
| \$25,000 - \$50,000  | 20 per cent "       |
| \$50,000 - \$100,000 | 10 per cent "       |

Over \$100,000 - such percentage as the rules require.



"(b) such dividend as the rules provide not exceeding 8 per cent;

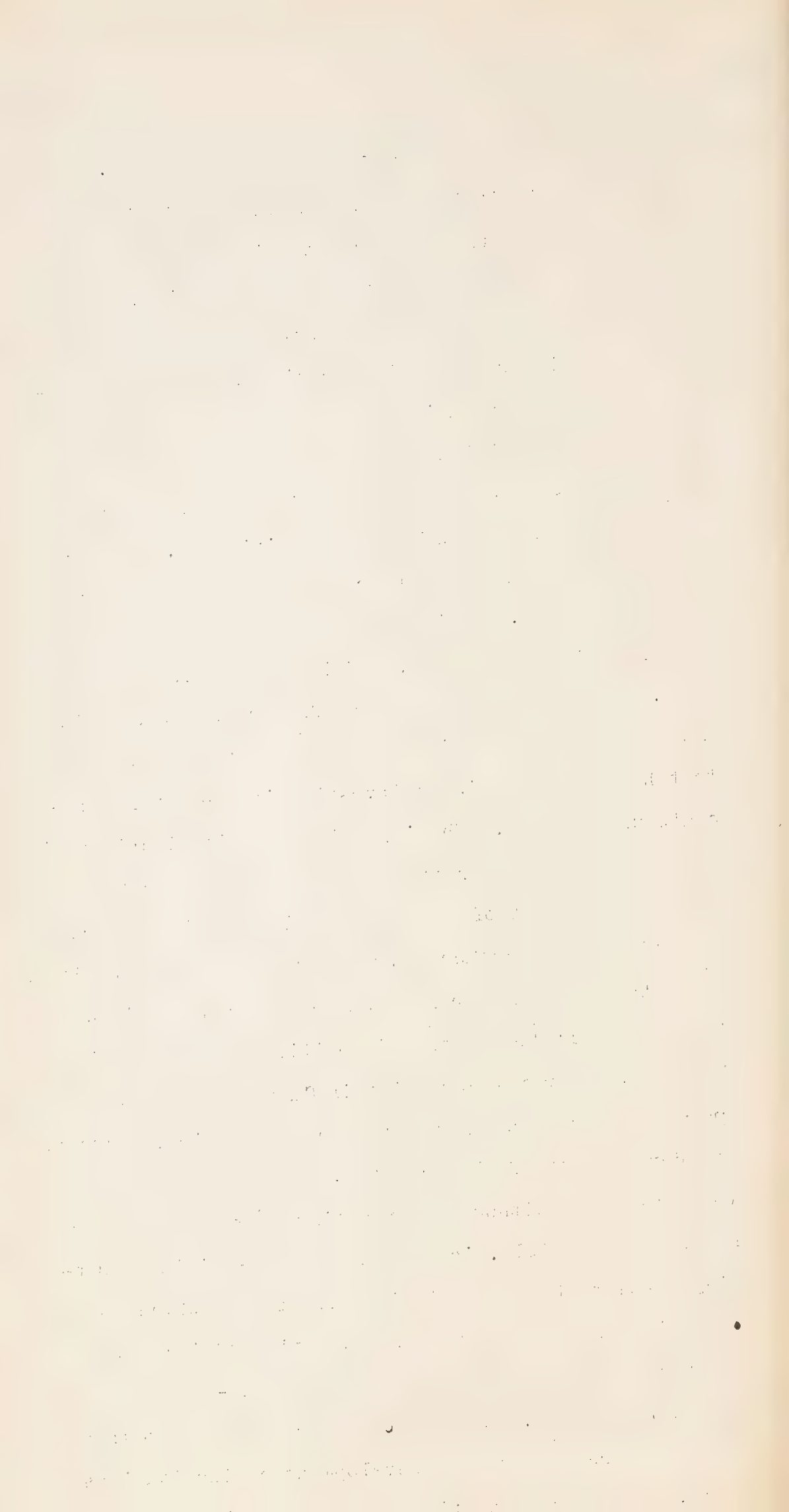
"(c) distributing the whole or any portion of the balance to such persons as its rules determine. Profits not so apportioned may be used for propaganda of cooperative principles or the general purposes of the Association.

"Unless some sound economic and national reason exists for subsidizing cooperative associations, and it will be later submitted that there can be no such reason, it is thought nothing can be advanced in argument to support any tax exemption upon profits of a cooperative devoted to increasing its capital, paying dividends upon its capital or in advertising the cooperative principle. Whatever virtue there may be in the argument of mutuality cannot apply in any one of these cases. Moneys earned as profits in a joint enterprise which are devoted to increasing the joint assets either in property or (by propaganda) in goodwill cannot for taxation purposes be distinguished from a dividend distributed rateably amongst the members in proportion to their capital investments. Such additions to capital and such dividends are indistinguishable from those devoted to similar purposes by ordinary trading corporations after taxation. Unless as a matter of good policy it is intended to end all corporate enterprise that does not take a cooperative form they should be treated alike. Taxation has made it difficult when not impossible for the trading corporation to finance capital additions from what remains in profits after taxation. If it is to grow in competition with co-





operatives, if it is to give employment, if it is even to remain taxworthy, indeed often if it is to continue business, it must borrow money for expansion. For taxation will make it increasingly difficult to attract money invested as share capital. In the meantime the tax-free cooperative has money readily available to construct additional plant and machinery with which to compete with the taxpayer. With the assurance of tax-free money with which to pay dividends, the cooperatives can attract any capital investment which may be required. It has ample tax-free money to spend in convincing the public, and it should not be a hard task, that membership in a tax-free cooperative brings advantages to the individual (but not to the country) that he cannot obtain by investing in the usual corporate undertaking. The injustice of this discrimination takes a fanciful character when it is realized that one-half at least of all the benefits received by cooperatives, are conferred by their corporate competitors while the other half come from the general public which is never alert to see the disposition of moneys paid in taxes. Cooperatives exist in Canada only by the grace of those who pay for the administration, security and development of this country. The fact that they enjoy these benefits without contributing to the fund which makes them possible, is tantamount to receiving a subsidy equal to the many millions of dollars which would be their share of the national taxation of income. Their corporate competitors pay about one-half of this national taxation, and thus by law contribute to that extent to the support and development of institutions which, given a continuation to these conditions, must



inevitably destroy them.

"6. It is thought that closer consideration should be given to the tax exemption presently given to the distribution of profits in the form of patronage dividends, than to the self-evident inequity of tax exemption to the other methods of employing co-operative profits described above. There can be no doubt that when tax exemption was granted to co-operatives it was not done upon any legal or logical theory that their profits could properly be distinguished from profits accruing to an individual, a firm or a true corporation. The exemption was granted it is assumed for much the same reason as exemption is granted to institutions carrying on charitable or educational enterprises without gain. It was thought that co-operatives would consist of smaller groups of poorer persons combining to purchase cheaply necessities of life; that there would be no gain or profits, and such enterprises should be encouraged. It is noteworthy that in other countries which had adopted a similar practice such exemptions were removed when inquiry showed the cooperative movement had achieved the size and character it has reached in Canada. That no logical theory lies behind the exemption is clear in that it applies equally to all profits whether added to reserve, paid in dividends upon share capital or distributed as patronage dividends. However in seeking post facto, justification for this exemption, co-operatives have argued that in fact no profit arises in cooperative dealings which could be subject to taxation. They allege that, however, their transactions may appear upon their books,



whatever the form of contracts may be into which they enter, notwithstanding they have corporate being and the advantages that accompany it, whether their membership is great or few in number, whether they trade amongst members exclusively or with all the world at home and abroad, yet they argue they must still be regarded as a combination of persons, buying and selling goods of which they are the owners, and thus no profit can arise. The personification of corporations was settled in our law in Saloman vs. Saloman 1898 A. C. and the principle was maintained in taxation matters in The Pioneer Laundry Case. Possibly the popular view, which follows the legal concept, of a corporation as an entity apart from its members, and goes further in endowing this entity with personality and character, has done much to obscure the evils of double taxation before referred to. But it is apparent no group of persons should be permitted to secure the benefits of a corporate entity for trading purposes and still allege that for taxation of profits earned by corporate efforts, one must look to what are called the real facts and find that a member has sold or bought his goods to or from himself and others with himself. It is submitted that 'mutuality' exists only when co-operative trading is strictly confined to its members. Styles v. New York Life Insurance 1889: Jones vs. Southwest Lancashire Coal Owners 1927: Mutual Insurance Ltd. v. Hills 1932. But even where such mutuality exists, and a fortiori where there is no mutuality and trading is conducted upon a large scale and includes sales and purchases to and from non-members; it should be permitted to be used for tax avoidance. The co-





operative Association Act of British Columbia refers to 'the profits of the Association;' such profits in fact arise through the activities of the Association. There is no good reason why the benefits accruing to certain individuals as a result of such activities should escape the taxation which is imposed upon identical benefits arising from the same activities by others in Canada. The income of charitable associations which are not operating for gain are exempt from tax. Suppose that such associations numbered 4,431 places of business in Canada and while being careful to make no gain for their members they distributed the profits arising through an annual business of over \$350,000,000 amongst nearly 600,000 associates and over 600,000 patrons and in this fashion avoided payment of approximately \$100,000,000 in annual taxation. If in that suppositious case the courts determined that the operations of such associations were exempt from taxation, would not legislation be required to correct at once an abuse of what had before then been a reasonable and proper exemption? The figures given are those relating to cooperative business associations in Canada in 1943 taken from a study prepared by Messrs. A. E. Richards and Lucienne Lalonde of the Market Service Economics Division, Department of Agriculture, Ottawa, entitled 'Co-operation in Canada 1943'. The figures do not take into account Credit Unions or Farmers Mutual Insurance Companies.

"7. The illustration chosen above consisted of the supposed abuse of an enterprise, to wit, charity, admittedly of benefit to the country and all persons





therein. It is submitted that there is now no national benefit in cooperative associations which might justify the national subsidy they now receive in tax exemption, but that in fact this subsidy has removed from these associations the necessity of meeting the competition without which progress is not likely to be made.

"The poultry industry is of importance to the wellbeing of the farming population of the Fraser Valley in British Columbia. The cooperative movement is well and long-established there.

"The Fraser Valley farmers must dispose of their eggs profitably, and it might be supposed that the cooperative would provide an outlet for this essential produce of their members. But the egg market is highly speculative; the business requires considerable capital expense, alert business judgment and above all a willingness to support this business judgment in taking those business risks without which some forms of business cannot exist. It is significant that cooperatives purchase no eggs in the Fraser Valley, and the poultry industry there depends upon and is supported by taxed corporations in the marketing of their produce, while it patronizes untaxed cooperatives for goods which can be dealt in without risk.

"It is submitted that while private enterprise is encouraged in the Canadian economy it is illogical to support by subsidy a movement which discourages the free flow of trade between all Canadians, and makes for a restricted trade where local interest and occupational similarity come first in the traders' mind. If trading corporations gave any preference in trading to share-



holders, to residents of a restrictive locality, or to persons of one occupation, not only would they, lacking any subsidy, soon cease to carry on any business, but their dissolution would not be regretted by any person who desired the proper development of Canadian trade.

"It is not open to debate that it is of advantage to the country to have a large and prosperous farming population and no exception would be taken by your commissioners to assistance to farmers who were required to pay more than a proper price for their necessities, or who were able to pioneer farming districts without support.

But it is submitted that the best protection to such farmers is the initiative and competition of trading corporations who have supported farmers and farmer-organizations including cooperatives with long-term credit, technical advice and other services not obtainable elsewhere.

Only so long as the cooperative movement was small and was directed to the assistance of pioneer communities and thus had a likeness to charitable organizations rendering services to the indigent which the State wished to encourage and yet thought not proper to discharge, could any proper reason be advanced for the tax exemption of cooperatives. No such situation now exists in the cooperative movement. If any institutions engaged in trade can be termed charitable organizations, surely it must be those corporate bodies in Canada who supply nearly half the money with which their cooperative competitors are subsidized in the form of an unjust



Mr. Tupper

unfair and inequitable remission of Income and Excess Profits Taxes.

Each one of your commissioners is prepared to place before your Commission a statement showing its gross business, and its net profits before and after taxation since 1936.

All of which is respectfully submitted.

'R. H. Tupper'

Of Counsel for the Brackman-Ker Milling Company Limited, Buckerfield's Limited, United Milling and Grain Company Limited and Scott & Peden Limited. "





Without yielding to the temptation to indulge in argument, I should like to vary slightly the argument developed in a part of this brief in relation to patronage dividends. The companies I represent all take this position, that from the broad point of view, for the benefit of the farmer on whom they must rely for support, and whose prosperity is their prosperity, the farmer is entitled to the benefits arising from production, and they do not take the position taken yesterday by some cooperatives that there should be no price maintained. Two witnesses for the cooperatives argue that they do not interfere with competing corporations because they do not maintain a high price for goods. Our position is the contrary. We think that the farmer is better off if unrestricted competition prevails among all those doing business with him instead of drawing him into a cooperative group where he has some inducements to buy supplies.

So far as the patronage dividend is concerned, if that were treated as a reduction in the price of goods he buys, or as an increase in the price of goods he sells, we would have no objection to it. That would be only competition of the kind which we are prepared to meet. But the present situation, in our opinion, is comparable to this, in our case. If we came to the end of our year and looked to our profits and saw that they were considerable, that there would be high taxation, and that a good deal of the profits would accrue to the Crown, it would be to our selfish advantage to say, "We propose to distribute a great part of these taxable profits in the form of some rebate to those with whom we are doing business."



It would be even more vicious. We would increase goodwill, but it would be more vicious in that if we proposed to distribute profits nominally, while actually keeping them in our till for the purpose of aiding us in the next year's business.

So far as the patronage dividend is concerned, if it were definitely paid in cash as a reduction in the purchase price to the farmer, we would have no objection. That is the kind of competition we are required to meet, and we are prepared to meet it on the basis of competition strictly and on the basis of ability to conduct business. We object, however, to two features. First, it is not a fair form of competition, and secondly, it adds to the ability of our competitors to compete with us. It goes into additional plant, which we find great difficulty now in financing.

THE CHAIRMAN: That is, the accumulations?

MR. TUPPER: Yes. I will call Mr. Buckerfield on that point, to establish the difficulty which we are faced with in financing, in the borrowing we have to do, which is not required by the cooperatives.

E. E. BUCKERFIELD,

Buckerfield's Limited,  
having been duly sworn  
testified as follows:

BY MR. TUPPER:

Q. You are President of Buckerfield's Limited?

A. Yes.

Q. How long has your knowledge of the feed business extended in British Columbia? A. Since 1909.

Q. You have been actually engaged in it?

A. Except during the Great War, when I was away. However,



I started my present business in April, 1919.

Q. You heard this brief read? A. I did.

Q. So far as the facts relate to your company and your associates with you in this submission, so far as the first paragraph is concerned, are those facts correct? A. Yes. I read it over.

Q. Your companies together do the majority of the feed business in British Columbia which is not done by the cooperatives. A. Yes; that is right.

Q. If the Commission pleases, I will lead the witness. Now, Mr. Buckerfield, I want you to confirm the figures which you have given me with regard to your annual business during the last four years. I will give you this after I have read it to you. Are these the audited figures and are they correct?

THE CHAIRMAN: Are you filing that statement?

MR. TUPPER: I have not sufficient copies for filing at the moment, My Lord.

THE CHAIRMAN: Can you give one to Mr. Parker?

BY MR. PARKER:

Q. I want to know whether these figures are from your auditors' statement and whether they are correct. The 1941 business was, in round figures, \$4,799,000; for 1942, \$5,707,000; for 1943, \$6,838,000; and for 1944 \$10,282,000. Those are round figures. A. You are taking them from our audited statements.

Q. They are correct? A. Yes.

Q. How do you account for the large increase from year to year? A. Partly on account of the increased production required for the war, and partly from the way in which we manage our business, by giving better





feeds and so on.

Q. In other words, you have had to grow and to develop? A. Yes.

BY MR. VAUGHAN:

Q. How much of that would be represented by an increase in price? A. Non, because the price has been frozen since 1941.

BY MR. TUPPER:

Q. In those four years, did you make a gross profit of \$622,709 before taxes? A. If that is the statement I gave you that would be correct. May I see it?

Q. Yes. Here it is. A. Yes. That is correct.

Q. That represents a profit of about two and one quarter per cent in your turnover. A. That is right.

Q. That is the margin of business? A. Yes.

Q. And your taxes? A. \$300,000.

Q. Which leaves \$322,000 odd? You paid a dividend on your preferred stock of \$75,600. A. In the four years.

Q. Is that four or five years? It is four years? A. Yes.

Q. And that left you \$246,000 to deal with? A. Yes.

Q. That is, after having paid taxes? A. Yes.

Q. You spent on capital account \$355,503? A. That is right.

Q. And you have increased accounts receivable in your books of \$363,000? A. Yes.





Q. That totals \$718,000? A. Yes.

Q. How did you find that money? A. We found \$240,000 odd out of profits and the rest we had to borrow from the bank.

Q. You had to borrow another half million from the bank? A. Yes.

Q. You heard my reference in the brief to the egg situation in the Fraser Valley? A. Yes.

Q. Have you a copy of your letter to me of January 13? A. No; I don't think I have.

Q. Were the statements in the brief correct respecting the egg situation? A. Do you mean the statement to the effect that the cooperatives do not handle eggs.

Q. Yes. A. Yes. Only private companies handle eggs in the Fraser Valley and the evidence was given yesterday that this business is not speculative. There is a ceiling and there is a cellar and the difference is twenty cents a dozen. You figure on \$60.00 a case and when you handle a thousand cases a day there is a risk in handling them. The highest price under the Wartime Prices and Trade Board is around fifty cents and the lowest is thirty cents, so that the dealer in eggs has the risk of that range.

Q. In other words, every time you buy eggs you take a risk in a considerable amount? A. Certainly.

Q. I will give you certain gross figures. During the four years did you purchase 199,523 cases of eggs having a value of \$2,116,000? A. If that is what I said in my letter. I got the figures from the records. Yes; that is correct, taken from the records of the company.



THE CHAIRMAN: What is the reason for that risk?

THE WITNESS: Well, in the spring when there is a flush production of eggs, the market goes down, and in the summer when that flush production goes down the market follows. The Government says that while there is an export surplus the price will be thirty cents, that is for shipment to the United Kingdom. It is a matter of the law of supply and demand.

BY MR. ELLIOTT:

Q. Is that a seasonal movement, which usually falls in the spring and rises in some other months?

A. Yes.

Q. So that to that extent it is possibly not as risky as the difference of twenty cents might lead us to suppose. A. It all happens within the space of some days.

Q. But you come to expect a certain state of things in the spring, though you cannot tell precisely when it will happen? A. But you cannot stop taking eggs from your customers.

Q. You can, however, anticipate to some extent that there will be a fall? A. Yes. On the other hand, you cannot sell ahead.

BY MR. ARNASON:

Q. In view of the export arrangements to Great Britain, consequent upon negotiation between the Canadian Government and the British authorities, do you not find that the handling of eggs is less risky under those conditions than it was under the conditions that existed before the war? A. I don't think so, sir. The spread



was not so great before the war -- six or seven cents a dozen was regarded as a big swing in eggs. Now, if there is not a sufficient quantity of local eggs to supply the British demand, up goes the price. Last year the top price was fifty cents, and the Government price is around thirty cents, which is a wide spread. The Government is of great assistance to the farmer from the standpoint of establishing a cellar. I have seen eggs around eight or nine cents.

Q. That Government assistance which you speak of is also assistance to the dealer? A. Yes, when you get below thirty cents.

THE CHAIRMAN: Does the perishable nature of the commodity accentuate the risk?

THE WITNESS: Yes, because you cannot store for long; you have to buy and keep moving.

THE CHAIRMAN: What do you do with eggs which you cannot store? Have you facilities for processing them?

THE WITNESS: Yes, but we have no facilities for storing. We have to store in public storage.

BY MR. TUPPER:

Q. Perhaps you might explain that point. You might tell the Commission what additional expenditure it was necessary to incur in order to develop a good business. A. We had to put in a processing plant in Vancouver and collect eggs from the country. The total expenditure in machinery and building was \$50,000 for eggs alone. We do not make money out of eggs; we handle the commodity for the convenience of our customers, our feed people. Before the Government put the cellar under eggs Buckerfields





used to say to them, "In the spring you will not sell eggs below sixteen cents because we will take them off your hands." In the old days they went to nine and ten cents and Buckerfields lost a good deal of money; but it would be better to lose money in eggs than in accounts receivable. In additon to that, evidence was given yesterday that the cooperatives have no field men. I may say that we engage in a campaign of education, the object of which is to educate the farmer in the way he should produce his eggs -- how to produce eggs cheaper.

Q. What do you do? A. Well, we analyze his soil and tell him what crops he should grow, whereas to my own knowledge no cooperatives give such services to farmers. A cooperative of considerable importance in the United States is G.L.F., New York. That is quoted all over the world as the most successful organization of its kind, and the general manager's statement given last year in the annual report is astounding, to me at any rate. As will be found at page six of that report, patronage refunds for this last year will amount to \$2,000,000. That is a lot of money. The year before it was a million and a half. The total amount for eight years which G.L.F. paid in patronage refunds is almost \$8,000,000. The average refund has increased from \$5.00 to \$12.00 per member. I make the claim, with reference to my company, that we give the farmers a valuable service in showing them how to produce eggs more cheaply, what to grow on their farms, and so on. The difference amounts to many times that \$12.00 a year which the cooperative has been able to save its members.



Q. Was that \$12.00 paid in cash? A. No, by a five-year certificate. They want the farmer to pay their prices and they give back \$12.00 a year per person. If \$12.00 a year is supposed to assist the farmers as far as the standard of living is concerned, then the standard of living of the New York farmer must be low. It cannot be otherwise if that is all the saving they make. They handle eggs and their business is tremendous. Let me give their volume of business. The net operating capital is \$11,000,000 and they have a total of employees of 3,161. Their shipments in 1943 amounted to 585,000 tons of feed. I have this statement here.

Q. We will put that in. A. Yes. I would like to put it in.

THE CHAIRMAN: Are you filing it as an exhibit?

THE WITNESS: Yes. May I suggest, sir, that a well conducted private company, by giving sound advice to farmers, can save a great deal, and we have done that.

THE CHAIRMAN: What have you to say in addition to what you have already stated about borrowing in the last four years.

THE WITNESS: The more money you make the quicker you go broke. Business increases and profits increase, and bank loans have gone up from \$200,000 to a million to handle the business the Government has asked us to handle for the war effort. We had to supply the feed the farmers wanted. Our customers are prosperous and we have no hold on them. We have nine thousand customers in this province who are farmers. In one district -- and there is a cooperative right beside us -- we have eight



hundred customers and the volume in that particular district has increased in the last four years from \$111,000 to \$386,954.

THE CHAIRMAN: That is really a war condition?

THE WITNESS: Partly. That is around Cloverdale, where the big cooperative is. There must be a lot of farmers who think that dealing with a private company is beneficial to them.

THE CHAIRMAN: You buy and sell to cooperatives?

THE WITNESS: We sell them and I am only one independent company in that district. There is nearly half a million dollars of feed business in that district.

THE CHAIRMAN: Have you anything further to add in regard to the cooperatives?

THE WITNESS: No. I think that the real cooperative is the farmers' institute. They are the real cooperatives of the province and they represent the outlying points. You don't see cooperatives forming in outlying points; it is too expensive. The farmers' institutes would buy a carload of feed and spread among the members, and that was the original idea of the cooperative. That was the original cash idea; they bought supplies and distributed them among the members and the members would benefit by paying a lower price.

BY MR. ARNASON:

Q. When you say that they are not organized in outlying points, you are referring to British Columbia only? A. Yes. I know nothing about other provinces. A cooperative limits its deliveries to the neighbourhood around its own centre; it will not go beyond its own centre. They leave that to the private companies.

THE CHAIRMAN: Their members are grouped in certain





localities?

THE WITNESS: Yes.

THE CHAIRMAN: And that imposes certain restrictions?

THE WITNESS: They will not take members outside that group. The original was all right, but what is more expensive to operate is left to the independent companies.

BY MR. ELLIOTT:

Q. You are speaking of your own line of business? A. Oh yes. There is one thing more I might say with reference to the service we give. In 1940 the British Government sent a man to Canada to look into the possibilities in connection with the growing of sugar beets. Sugar beet seeds were brought from France, but as you know France collapsed. I said that we would take it on and we got a man from the Research Council in Ottawa. The reports were that this product could not be raised here under seventeen cents a pound, but we got university men, trained farmers, to show how it could be produced here at less than six cents a pound. The cheapest German seed that used to come to Canada was eight cents, but we are now producing all the sugar beet seeds used in Canada and shipping to England and the United States. That is an illustration of the service that can be rendered where, by guiding the farmer, you can save only enough to buy cigarettes out of feed.

BY MR. ARNASON:

Q. And that is not done by cooperatives? A. No.

Q. Do you think that the expansion of your business has come about as a result of the war effort?

A. Partly.





Q. It is largely as a result of the war effort is it not? A. We have been growing for ten years.

Q. And as a result of that expansion you have had to borrow money? A. Yes.

Q. Would you say that your financial position is weaker now than it was four or five years ago?

A. So far as working capital is concerned. We have no reserve to take care of the slump that is bound to come after the war is over such as the cooperatives have. We have not \$100,000 in Victory Bonds. They have a cushion and we have not. As a matter of fact, I was approached by a chartered accountant who pointed out to me the advantage of forming a cooperative -- how we could save money and keep the money in the cooperative as a reserve until after the war and gradually pay it out. We would avoid taxation. That has been shown me by two chartered accountants.

BY MR. PARKER:

Q. You say it has been suggested to you that you change over to a cooperative? A. Yes.

Q. Why did you not do it? A. I don't like it.

Q. Why? A. Well, in the first place it is not playing ball. I am not really a cooperative. If I am to be a cooperative I must be a cooperative. But to have four or five sign up and represent themselves as a cooperative -- well, I don't like it. Cooperation in any line is good, but it should not be done to avoid paying taxes.

Q. I did not ask you that. A. You asked why I did not do it.



Q. I did not suggest anything about the avoidance of taxation. Do you believe in the principle of the cooperative movement? A. Yes.

Q. I do not say in all the details as cooperatives are operated, but generally speaking, having regard to the original idea behind the cooperative movement; do you regard it as a sound principle? A. Yes.

Q. And as a good thing in the economic life of the country if properly restricted and properly safeguarded? A. If put on the same basis as anyone else.

Q. And you say you did not act on this suggestion. I do not see why you don't do it. If it is a good thing for other people why is it not good for you? A. Should five or six of us sign up and make returns to the Government as a cooperative company and by doing that build up big reserves and pay them out after the war when taxes are reduced? It does not appeal to me.

Q. What is wrong with it? Aren't you in business for the purpose of making a dollar? A. No.

Q. What are you in business for? A. To make money but not that way.

Q. There is no law in the country that compels your company to deal in eggs if it does not want to.

A. No.

Q. You do it as a matter of -- A. Necessity.

Q. Not as a matter of free choice? A. Yes, both.

Q. I do not see how you can do it as a matter of free choice and as a matter of necessity.

A. Because we are selling the farmers' feed and we want



to protect their income. We want to buy goods from them, and if we did not do that eggs might go a way down in price and the farmers might lose money and we would lose their accounts.

Q. And I suggest that you are in the same position as any other private company. You carry a great number of departments, some of which pay if you keep them separately, while others do not; but you are compelled to carry the non-paying departments which are indirectly supported by the paying departments. Is that a fair statement? A. It is; but in my business we try to make every department break even.

Q. But you cannot always do that. A. No.

Q. And in that respect the egg situation is no different from what is commonly found in every business that has to carry a number of departments. Isn't that a fair way of putting it? A. Yes.

Q. And the cooperatives in your territory do exactly as you do in this regard? They choose what commodities they will deal in and what commodities they will not handle. A. That is right.

Q. And that is about all there is to the egg story? A. That is right.

Q. You spoke about borrowed capital. I don't know what the point was. The cooperatives borrow capital too? A. They don't pay interest on it.

Q. I did not ask you that. They borrow capital from members. Have you not heard that? A. I heard they borrowed it.

Q. Have you a doubt about it? A. Yes. They don't borrow it; it is an accumulation of profits.





Q. You say that the cooperatives, so far as you know, do not borrow money from time to time for working capital? A. As far as I know.

Q. Have you been here during the last two days? A. Just at odd times.

Q. Have you heard the evidence given here? A. Some of it.

Q. Did you hear anyone say at any time that the cooperatives borrow money first from their members and sometimes from the banks, and very largely by the process of withholding certain surpluses or savings, or whatever the proper term is? A. I don't recall that last method of borrowing money.

Q. But they get money that way? A. Yes.

Q. Is there any fundamental difference between borrowing money and then paying it back as a loan and just withholding it? A. I have to pay interest when I borrow money, and that is the difference. I have to provide a sinking fund.

Q. If they can borrow money without interest, isn't that all for the good? A. I have no objection to their doing so if they can do it.

Q. With regard to the risk involved in the handling of eggs, there is a risk in the business world, is there not, in connection with any commodity you handle? A. Absolutely.

Q. The variations and extent of the risk are as numerous as the stars in the heavens -- very nearly? A. Yes.

Q. And to your knowledge cooperatives do handle, do they not, commodities that are involved in considerable



risk? A. Not in perishable articles.

Q. Did I say that? A. They do not handle anything as risky as eggs.

Q. I suggest that you answer my questions. Leave the speeches to Mr. Tupper. A. You want my personal knowledge?

Q. Yes. A. I can't say that they do. I have no personal knowledge.

Q. Then you are not in a position to tell the Commission that the risk involved in any commodities carried by the cooperatives is any less than the general risk carried by your private company? A. I have mentioned eggs.

Q. Apart from eggs? A. Eggs are very risky.

Q. But you will agree with me that there are other commodities that are risky? A. Not as risky as eggs.

Q. Are they not the most risky commodity on the market? A. I think so.

Q. What about imported fruit like bananas, cherries, blackberries and so on? Do you call them perishable?

A. Yes, they are perishable.

Q. Would you not call them equally perishable with eggs? A. Yes.

Q. And do not the cooperatives handle a great many lines such as I have mentioned? A. Yes.

Q. So that that is about all there is to the point about risk? A. Mind you, I was only talking about my own business.

THE CHAIRMAN: Is the spread in price as great in those other commodities?



THE WITNESS: No sir, I don't think so; but I have no personal knowledge.

BY MR. PARKER:

Q. I notice that in the brief to which you subscribed you state in effect, as I understand, that as long as there is what is known as mutuality you have no particular objection? A. That is correct.

Q. What do you mean by that? What is the mutuality that must exist to make an alleged cooperative an honest-to-goodness cooperative? A. That is a legal term.

Q. Do you know what it means? A. It means a mutual interest in the goods bought and sold.

Q. A mutual interest in goods bought and sold? A. Yes. May I enlarge on that?

Q. Yes; I wish you would. A. Mostly, co-operatives deal in business with other than their own members and therefore cannot be said to be mutually interested.

Q. Well, to the extent to which they do business with their own members, do you call that mutuality? A. I think so.

Q. There is not much doubt about it, is there? In so far as they do business with non-members, on the other hand, that is not mutuality? A. They are a trading company.

Q. Cannot a company be a trading company without being a private trading company? Perhaps we are discussing terms that are not very helpful.

THE CHAIRMAN: You mean private as distinguished from cooperative?





THE WITNESS: Yes sir.

MR. FRANCIS: On behalf of the clients I represent, I would like to direct a few questions to the witness. First, however, I would ask my learned friend whether the witness is able to speak on behalf of one of the clients whom he represents, the United Milling and Grain Company Limited.

MR. TUPPER: Yes, all four submissions, but I do not think he will know the facts.

MR. FRANCIS: Then, will my learned friend undertake to produce a witness from the United Milling and Grain Company?

MR. TUPPER: I will do my best but I cannot give an undertaking,

MR. FRANCIS: My learned friend is relying on the records of these companies. May I say a word on the question of procedure? As one of His Majesty's Judges, Your Lordship will appreciate the fact that over the centuries the method has evolved of producing the evidence first, having that evidence tested and then, on the evidence as finally sifted, of presenting argument. That has been the method and that is the method which we have followed in our submissions, and it places us rather at a disadvantage to have the argument submitted first and then have an attempt made to support that argument by adducing evidence. That is not the custom that has grown up; it is not the time-tested practice. We found an illustration arising yesterday where certain facts were alleged and then, when the only witness who was called gave his evidence, he was not able wholly to substantiate the allegations. May I respectfully suggest,



4

[illegible]

1900

therefore, that since this is an inquiry we might very well follow that time-honoured custom that has been tested in the courts over the centuries. I make that suggestion with all deference. That is the plan that we followed and it seems to be working fairly successfully. That is to say, we call the witness who knows most about the facts. He is sworn and is examined and is then submitted to very able cross-examination, so that by the time everyone is through with him you feel that you have got the kernel of the facts. Then, on the facts so brought out, you can base your argument. According to the other procedure, the argument is first advanced and an attempt is then made to support it with factual statements. But when the attempt is made to support the structure so built up -- as in the case of Mr. Cheyne -- the argument falls.

THE CHAIRMAN: There are two observations which I think I should make, Mr. Francis. This is not a court; it is a commission. Rules of evidence and of procedure are therefore not the same. In the second place, I understand that this witness represents a group, so far as the argument generally is concerned, though so far as the facts are concerned he represents his own company only and therefore would be rash if he attempted to speak for another company. There is, however, a third point to be noted. It is obviously impossible for this commission to investigate every cooperative and every competing private business. We might be here beyond the duration of the war if we attempted anything of that kind. I understand you wish to ask the witness certain questions.

MR. FRANCIS: Yes, My Lord. I want to ask the



witness this preliminary question.

THE CHAIRMAN: Very well.

BY MR. FRANCIS:

Q. Can you tell the Commission whether or not the United Milling and Grain Company is a member of the Western Cooperative Union? A. I don't know at all.

Q. You have referred to the assistance which your company renders to the farmers? A. Through our university servicemen, yes.

Q. Is it a fact that the Department of Agriculture -- I mean the Dominion Department -- renders service of the nature you speak of? A. Not to my knowledge.

Q. Do you know Mr. P. R. Wilson, the representative of the Department of Agriculture? A. I know a Mr. Wilson, Head of the Inspection Department.

Q. Is it a fact that he gives instructions to farmers? A. He is in the Vancouver office. He is manager of the whole thing and I have never heard of him being in the country.

Q. Is it a fact that the Government, through its employees, gives advice of the kind of which you have spoken. A. Not the kind of service I give.

Q. Well, do they give service? A. I don't know.

Q. The service which you give is an expense item? A. Yes.

Q. And it is charged as a matter of expense? A. Yes.

Q. It is deemed to be good advertising. A. It gives service to the farmers. We don't use it as



advertising. We give it as a service so that the farmer can produce eggs and feed and so on on such a basis as to make a decent living.

Q. And he pays for that service? A. In the first place, on feed, naturally. But he gets it back one hundred per cent.

Q. Just a word in respect of the nature of the poultry business. I believe you told the Commission that you did not know of cooperatives handling commodities that involved risk. A. I said there was nothing more speculative than eggs.

Q. You are fairly familiar with the poultry industry? A. In British Columbia.

Q. But not elsewhere? A. Not very much.

Q. Have you heard of the Manitoba Cooperative Poultry Association? A. Yes.

Q. It is a large concern? A. Yes.

Q. And it is a cooperative? A. I mentioned the Fraser Valley in my evidence. I am not talking about anything outside of this province. The Chairman asked me a question and I said I could speak only of the province.

Q. At any rate, you have heard of this company? A. Yes.

Q. And as I say, it is a large company? A. I don't know that it is a cooperative. I don't know that it is large.

Q. You have already said that you knew it was a large company. A. I have heard of it but I don't know whether it is worth a dollar or a million dollars. I should have recalled that statement because I have no





personal knowledge of it at all. I have never been in their office. I have never talked to them about their capital. They handle eggs in the province of Manitoba, but that is hearsay knowledge.

Q. In this province there is a great deal of fish handled. A. There should be.

Q. That is a speculative commodity? A. I imagine so.

Q. And you do know from your personal knowledge that there are cooperatives engaged in the business? A. Not from my personal knowledge. It is in Prince Rupert and I have never been there.

Q. You have no knowledge of it? A. I don't know anything about it.

Q. Then I take it, if it is not common knowledge, that they are not so substantial as to be a great threat to the industry? A. I am not in that line of business, and I do not think that the average person in Vancouver knows whether it is a threat or not. It is eight hundred miles away.

Q. It is just a little cooperative in the country? A. I don't know anything about it.

Q. Were you in the room the other day when the evidence was given on behalf of Massett? A. No.

Q. You did not hear that the private trade paid one and a half cents for clams and the cooperatives four cents? A. No.

Q. In British Columbia there is a good deal of fruit handled. A. Yes.

Q. Is fruit speculative? A. Not speculative but perishable; there is a difference.



Q. Isn't it both? A. I don't think so.

Q. You say it is perishable but not speculative?

A. That is my opinion.

Q. Do you know of your own knowledge of any fruit cooperatives? A. Yes.

Q. Are they very substantial? A. Yes -- well, not of my own knowledge but by hearsay, looking at the reports I read in the papers.

Q. And they handle a perishable commodity?

A. Yes.

Q. But you say it is not speculative?

A. I don't think it is speculative. In the first place, I don't think they buy fruit. The farmer takes the loss if there is any. I don't think the cooperative handles fruit the same as eggs are handled.

Q. You give the opinion that the fruit industry is not speculative? Is that right or wrong? A. It is not as speculative as eggs, comparing it with my own commodity.

Q. Is it speculative or not? A. I am not in the fruit business.

Q. But what is your opinion? A. I don't think so.

MR. PARKER: I do not think this man professes to be an expert. He knows what he knows, and so far as other matters are concerned he knows, he says, by hearsay.

BY MR. PARKER:

Q. There are just one or two more questions which I should like to ask. You mentioned an increase in your business, and you operate in the Cloverdale district. A. Three miles from Cloverdale.



Q. You have a lot of customers from that district where the Surrey Co-operative carries on? A. Yes.

Q. And you say the farmers have increased production for various purposes for the war? A. Yes.

Q. The evidence yesterday was that the farmers had been able to improve and expand production because of the benefits they derived from their cooperative?

A. I was not here but I assume that would be correct. That is what they claim.

Q. And the claim is correct? Is that right?

A. I don't agree with that. A lot of members of the cooperative are buying from Buckerfields so as to get better feed. That is why they get more production, perhaps.

Q. One more question with regard to the speculative nature of the poultry business. Is it of such a speculative nature that you would like to get rid of it?

A. If someone would take the same responsibility that Buckerfields took in regard to getting a market for the eggs of the farmer.

Q. Have you a contract with the farmers whereby they agree to buy your feed if you buy their eggs?

A. No sir; it is absolutely free.

Q. Has your poultry department broken even over the past four years? A. Yes.

Q. Is that the same thing as the egg department?

MR. FRANCIS: Yes.

MR. TUPPER: That completes the submission, Mr. Chairman.

MR. ELLIOTT: May I ask Counsel whether this witness is introduced to verify the figures on page eight





of the brief?

MR. TUPPER: No. The reference to those figures, Mr. Elliott, is given at the top of page nine.

MR. ELLIOTT: May I ask Counsel then to clear up a point. There are three or four figures at the bottom of page eight, including a statement which reads: ".....and in this fasion avoided payment of approximately \$100,000,000 in annual taxation." That figure, I take it, is not from Richards and Lalonde of the market service?

MR. TUPPER: I think so. I was careful in obtaining those figures.

MR. ELLIOTT: They say that, "In this fashion" payment was avoided of approximately \$100 ,000,000 in annual taxation,

MR. TUPPER: "In this fashion" because, naturally, no one would be able to do more than make a wide approximation in the matter of taxation.

MR. ELLIOTT: But in their report they draw that inference.

MR. TUPPER: I will not speak positively because it is two or three weeks since I took it.

BY MR. MILLIKEN:

Q. It was impossible for me to hear exactly what it was that Mr. Tupper was filing, Mr. Buckerfield, but am I correct in assuming that it was the annual balance sheet? A. Yes.

Q. I want to ask you one or two questions. I understood you to say that your business had increased in a certain year -- that it had almost doubled in the past year. Is that correct? A. I gave the figures.





Q. What I am interested in is this. There is no cooperative engaged in the business that you are doing in that area? A. Oh yes, there is.

Q. There is no cooperative in your business that you are doing, however, so that the business done by you in that area has no competition from a cooperative? A. Certainly it has.

Q. I thought you said they were not in the business of buying and selling eggs. A. I am only handling that as a convenience to customers.

Q. You mean that your feed business in competition with cooperatives had doubled this last year? A. More than doubled. I will give the figures.

Q. That is all right; I was interested in the fact -- which I thought I gathered from what you said -- that you were in a business in which they were not engaged. A. Only as regards the handling of eggs.

Q. If your business has doubled this past year, and you are in competition with a cooperative, which is exempt from income tax, are you afraid of cooperative competition? A. No; but I am afraid when they are given an advantage that we have not got.

Q. Did they have this advantage in this particular year? A. Yes. They have \$100,000 in war bonds as a cushion, which we have not got.

Q. You can stand up to their competition? A. If given an even break.

Q. In spite of the fact that you are paying income tax? A. But we do not know what it will be a year or two after the war is over.

MR. FARRIS: Mr. Chairman, I would like to make a



correction. At page thirty of the brief in the schedule relevant to the Island Farms, the figure in the middle of the page is \$97,000; that is, Island Farms was sold for the sum of \$97,000. I wish to correct that so as to read, "Approximately \$90,000." I have conferred with Mr. Cheyne in regard to that and Mr. Cheyne concurs in that.

Statement of C. H. Locke,  
A.B.C. Packing Co. Ltd. and others:

THE CHAIRMAN: Mr. Locke, are you next?

MR. LOCKE: Mr. Chairman and gentlemen, you will find, in addition to my written submission on file, exhibits which contain certified copies of the memorandum of association of two cooperative associations and certified extracts from certain of their balance sheets, and which also includes a copy of the balance sheet of the Prince Rupert Fishermen's Association. I will read the brief and offer certain comments as I go along. The brief reads:

"This submission is made on behalf of the following companies engaged in the fishing business in British Columbia, namely:-

"A. B. C. Packing Co. Ltd., British Columbia Packers Limited, Canadian Fishing Company Limited, Cassiar Packing Company Limited, Colonial Packers Limited, Great West Packing Company Limited, Johnston Fishing and Packing Co. Ltd., Francis Millerd & Co. Ltd., National Fisheries Limited, Nelson Bros. Fisheries Ltd., Nootka-Banfield Co. Ltd., North Shore Packing Company Ltd., Queen Charlotte Fisheries Limited, J. H. Todd & Sons Ltd., and Westminster Cannery Limited.



"We refer to these hereafter as the "Companies".

"The Companies include all of the joint stock companies engaged in the fish canning industry in British Columbia, and engage variously in fishing and in the sale of fresh and frozen fish and in canning and otherwise preparing for market salmon, herring, pilchard, halibut, shellfish, fish and fish liver oil, vitamin oil and fish meal. Of these products roughly eighty (80%) per cent of the canned salmon and ninety (90%) per cent of the canned herring have been exported to Great Britain during the war years upon the direction of the Dominion Government.

"The total salmon pack of all canners in British Columbia for the war years, according to the report of the Provincial Fisheries Department, follows:-

|      |   |                 |
|------|---|-----------------|
| 1939 | - | 1,539,063 cases |
| 1940 | - | 1,467,216 cases |
| 1941 | - | 2,295,433 cases |
| 1942 | - | 1,811,558 cases |
| 1943 | - | 1,258,221 cases |

"During the same period the production of canned herring products follows:-

|         |   |                 |
|---------|---|-----------------|
| 1939-40 | - | 418,021 cases   |
| 1940-41 | - | 640,252 cases   |
| 1941-42 | - | 1,527,350 cases |
| 1942-43 | - | 1,253,978 cases |
| 1943-44 | - | 1,198,632 cases |

"During the same period the following quantities of canned pilchard products were produced:-

|         |   |              |
|---------|---|--------------|
| 1939-40 | - | 7,300 cases  |
| 1940-41 | - | 59,166 cases |





|         |   |              |
|---------|---|--------------|
| 1941-42 | - | 72,498 cases |
| 1942-43 | - | 43,008 cases |
| 1943-44 | - | 94,512 cases |

"In addition to the foregoing very large quantities of oil and meal produced from herring and pilchard were produced on this coast.

"The Companies, in addition to engaging in fishing, operate fish packing boats, canneries, cold storage plants, fish meal and oil, fish liver and vitamin oil plants, and shellfish canneries, and carry on businesses incidental thereto.

"The investment of the Companies in their enterprises on this coast approximates twenty million (\$20,000,000) dollars. Some of the Companies are public companies: others are private companies: their shareholders approximate in number 1,800. The employees of the Companies and the fishermen engaged in the industry on this coast, other than those employed by or members of cooperative associations, approximate 15,000. The Companies and their shareholders pay large amounts annually to the Dominion Government by way of income tax, and some of the Companies are liable to excess profits taxes under the provisions of the 'Excess Profits Tax Act' for the war years.

"The Companies have been informed that your Commission invites representations upon the following matters:-

(a) The present position of cooperatives in the matter of the application thereto of the 'Income War Tax Act' and the 'Excess Profits Tax Act' 1940; and



(b) The organization and business methods and operations of the said cooperatives as well as any other matters relevant to the question of the application of income and profits tax measures thereto; and

(c) The comparative position in relation to taxation under the said acts of persons engaged in any line of business in direct competition with cooperatives.

"In making this submission the Companies do not propose or desire to attack the principle of cooperative trading. They do however respectfully submit that both the 'Income War Tax Act' and the 'Excess Profits Tax Act' of 1940 should be applied to all businesses whether of corporations, associations or partnerships; which are operated for profit, or as a result of which profit results to the organization concerned. It is in support of that submission that the Companies wish to make the following representations.

"There are at the present time four (4) associations organized under the provisions of the 'Co-operative Associations Act', Cap. 53, R.S.B.C.1936, all of which compete with some of the Companies.

"The 'Co-operative Associations Act' was first enacted in this province in 1920 (Statutes of B. C. 1920, cap 19). It is we think important to note the following terms of the Act. The entity established is an incorporated association and may carry on any lawful industry, trade or business except the construction and operation of railways or the business of banking or insurance or of a trust company as defined by the 'Trust Companies Act', sec.3.



"The capital must consist of an unlimited number of shares of such denomination as may be fixed by the Memorandum and the liability of the member is limited to the amount unpaid on the shares held by him (sec. 5.)

"Section 7 reads as follows:-

'From the date of the certificate of incorporation the subscribers to the memorandum, and such other persons as may from time to time become members of the association, shall be a body politic and corporate by the name therein described, having perpetual succession and a common seal, with the powers and subject to the provisions of this Act contained.'

"The Association may sue and be sued, contract and be contract~~ed~~ within its corporate name; may hold land, borrow money and shall have power to buy or sell all articles and things within the scope of its business, construct shops, warehouses, etc., invest its funds in any security in which the trustees for the time being are authorized by law to invest, and, inter alia, acquire other properties, (secs. 8, 9 and 11).

"Sec. 13 provides for the distribution of the profits and requires that they be apportioned as to a certain percentage thereof as a reserve fund to paying such dividend not exceeding eight (8%) per cent per annum as its rules may provide on the paid up share capital: by distributing among such patrons or class or classes of its patrons as the Association may, subject to its rules, determine, whether members or not, and whether vendors





to or purchasers from the Association, the whole or any portion of its remaining profits, and profits not so apportioned may be devoted to the propagation of cooperative principles or the general purposes of the Association.

"Each association is required within three (3) weeks after its annual general meeting to file with the Registrar of Companies certain reports including a copy of the balance sheet certified by the auditors (sec.36).

"The form of Memorandum of Association is prescribed in Schedule 'A' of the Act, and rules which govern, save insofar as they are excluded or modified, are prescribed by Schedule 'B'. Sec. 26 renders it obligatory that the rules shall deal with the matters mentioned in Schedule 'C', which shall include, inter alia, the mode of application or profits.

"Schedule 'A' to the Act is a form of Memorandum of Association with an example of the objects which may be stated.

"Schedule 'B' sets out the rules which, save insofar as they are excluded or modified, govern the association. These are, save as so amended, the equivalent of the Articles of Association or by-laws of a limited company. Under the heading 'Financial' the rules prescribed by the Act contain the following:-

'58. At every annual general meeting the directors shall cause to be laid before the Association the profit and loss account and balance sheet prepared by the directors in accordance with the Act for the period to the thirty-first day of December last preceding, and cause to be read their report and the auditors' report thereon, all of





which shall be open to inspection by any member. Every member shall be supplied free of charge with a copy of such balance sheet.

'59. The directors shall report to such meeting the state of the Association's affairs and the amounts (if any) which they recommend (a) to be paid by way of dividend, and (b) to be paid as bonus to the vendor and purchaser patrons of the Association, respectively.

'60. The directors shall, before recommending any dividend, set aside out of the profits of the Association, in accordance with the Act, such sum as they think proper, and not being less than ten per centum of the net profits, towards the reserve fund, which shall be applicable for meeting contingencies; and pending such application may, at the like discretion, either be employed in the business of the association or be invested in such manner as the Act permits and the directors may deem advisable.'"

You will see that the directors are required to set aside not less than 10 per cent towards a reserve fund, but there is no limit, unless they amended this rule, that would prevent them from taking all the profits of the operation for the year and setting them aside for a reserve. This is only a minimum.

MR. PARKER: Are these the rules under the 1920 Act?

MR. LOCKE: They are in the 1936 Act unchanged?

MR. PARKER: Are they the same in the two acts?

MR. LOCKE: These are copied from the 1936 Act.



I will check that. It was in 1920 that the Act was passed under this name and the last revision of our statutes was in 1936 -- the last revision of the Act.

Continuing:

"'61. The Association in general meeting shall declare dividends and bonuses, but no dividend or bonus shall exceed the amount recommended by the directors.

'62. No dividend or bonus shall be paid otherwise than out of profits, and no dividend on shares shall be at a rate in excess of eight per centum per annum.

'63. All dividends shall be declared and paid according to the amounts paid up on the shares.'

"For the purpose only of illustrating the manner in which cooperative associations operate under this Statute, we have examined some of the records of the Prince Rupert Fishermen's Co-operative Association and the Kyuquot Trollers Co-operative Association, which are two of the principal associations engaged in the fishing trade in British Columbia organized under this Statute."

I have gone to some extent into the figures of these cooperative associations, not for the purpose of directing an attack against them but because I wish to illustrate the point I am contending for by taking figures extracted from their own statements. Continuing:

"Both of these associations we assume qualify as Fishermen's Co-operative Associations as that term is used in sec. 4 (p) of the 'Income War Tax Act'. Of necessity we are without knowledge as to whether the income of these associations is taxed under the 'Income War Tax'



or as to whether the 'Excess Profits Tax Act' has been applied to their respective incomes, nor are we informed as to whether the associations or either of them:-

'Market the products of the members or shareholders of such cooperative organizations under an obligation to pay to them the proceeds from the sales on the basis of quantity and quality, less necessary expenses and reserves.' within the meaning of subsection 4 (p) (a). We set forth the following facts regarding these organizations merely to illustrate the nature of the income producing activities of associations of this nature, which we submit should be liable to tax under both statutes."

Mr. Francis tells me that Mr. Dean proposes to give evidence but he is not here. I understand that he will give evidence in Ottawa and that information will then be disclosed. Continuing:

"We file herewith as Exhibit 'A' a certified copy of the Memorandum of Association of the Prince Rupert Fishermen's Co-operative Association, which bears date October 7th, 1939; attached thereto is a certified copy of the Rules of the Association. We also file herewith as Exhibit 'B' a copy of the Balance Sheet, Statements and Reports of this Association for the period December 1st, 1942, to October 31st, 1943."

This is a large printed document. The first of the ten copies I have filed is one of the balance sheets put out by the association and filed with the Registrar of Companies. It is a printed document and other copies are taken from that. That is given to me as the balance sheet of the Prince Rupert Co-operative and is a duplicate





of what is filed with the Registrar of Companies.

Continuing:

"Attention is drawn to the Memorandum of Association in which the objects are declared, inter alia, to carry on the business of a fish merchant in all its branches; to buy, sell, produce, manufacture, can, pack and preserve all kinds of fruits, vegetables, provisions, meats, fowl, game and other food products and by-products of any of the foregoing: to carry on the business of a storekeeper in all its branches and to buy, sell, manufacture and deal in goods, stores, consumable articles, chattels and effects of all kinds, both wholesale and retail, and to transact agency business."

So that the cooperative, if it chooses, may act as the agent or consignee of its members under general powers which are practically indistinguishable from the general powers of a company going into business for profit. The Statute contemplates that these organizations will carry on business for profit by that name and not by any other. Continuing:

"We have made extracts from the balance sheet of the association as at November 30, 1939, on file with the Registrar of Companies at Victoria, showing total assets as of that date, including cash, accounts receivable, stores and fish inventories, packers, scows, and other miscellaneous assets totalling \$86,631.55, and liabilities including share capital of \$13,800 and reserves of \$9,333.53, totalling \$71,792.12, indicating a surplus of \$14,839.43. The balance sheet filed contains the following entry:

'Net worth                      -                      \$37,972.96.'



This is from the document filed with the Registrar as required by Statute, and this is their own certificate and statement, within a month or two of the incorporation of this cooperative. Continuing:

"The balance sheet as at October 31, 1943, after four (4) years' further operation, shows assets of the association of \$492,155.41 and:-

'Total net worth - \$165,596.34.'

"The 1943 balance sheet shows cash on hand, accounts receivable including charter money for one of the association's vessels taken by the Department of National Defence, inventories of merchandise in the town store at Prince Rupert, and inventories of canned salmon totalling \$441,149.63; the association has also considerable investments in motor vessels, camp buildings and equipment, floats and scows, store equipment and automobiles. In addition it has an investment in the Prince Rupert store and additions after depreciation of \$17,651.55. Some indication of the nature and extent of the operation is given in the Directors' Report. The 1943 sales for eleven (11) months in the Prince Rupert store, camp stores and service stations, total \$529,976.19 (see p. 1). It was proposed to construct a plant for the processing and packing of fish and to construct a dock as an adjunct thereto at a cost of approximately \$60,500 (see p. 4). The association operated three (3) packers during the season at a profit (see p.8).

"From the operation of the stores and service stations in the 1943 fiscal period a net profit of \$33,287.64 was made, which the Board of Directors suggested



should be allocated as follows:"

I am quoting from their own report. Of necessity, I do not know what their members did. The figures given are as follows: Continuing:

|   |                    |
|---|--------------------|
| "10% on net surplus - legal reserve     | \$4,328.76         |
| 5% on sales - purchase savings          | 26,498.80          |
| 5% on net surplus - educational<br>fund | 1,664.38           |
| Balance - general reserve               | <u>1,795.70</u>    |
|   | <u>\$33,287.64</u> |

This item of purchase savings is what in England they call the "Divi", or what is sometimes called a patronage dividend. It is something they give back to their members. Continuing:

"(see p.11). The association also carried on an extensive business in its fish oil department (see the Report pp. 12 to 16: Balance Sheet pp. 33 and 34)."

I would direct attention to page 21 of Exhibit "A", which is the last report I have of the Prince Rupert Co-operative for the period ended October 31, 1943. I do not propose to deal with this in detail but I direct attention, first, to the extensive assets of this company. First, you will note their small share capital. Their assets, obviously, were not required from money subscribed for share capital. I would particularly draw your attention to the right-hand column, the liabilities, as of October 31, 1943 where they state their current liabilities. There is an item "Coupons Outstanding 1943" which I do not understand. I do not know what that means. The dividends payable for the years from 1938 to 1942 inclusive amount to \$53,000 odd.





As this is shown as a liability, I would assume -- I think you are entitled to assume -- that these are dividends declared but not paid. Of course, if they were declared, I assume the member would be entitled to them and therefore they would form a part of his income for that year -- that is, if they were dividends in the ordinary sense. However, that is the way it is treated in the books.

The next item to which I would direct your attention is the reserves. The Statute and the rules speak of reserves of not less than 10 per cent but they do not limit them. This association has a legal reserve of \$8,000 odd and a special reserve of \$2,000. There are such other items as general reserve, contingent reserve, reserve for bad and doubtful debts, one per cent, and reserve for boat repairs. The total of these items, from the legal reserve down to and including the last mentioned reserve for boat repairs, is \$27,083.71.

I attach some importance to that entry in the balance sheet for a reason which I will develop. I refer you now to the bottom of page nine of the brief:

"The method of paying the fishermen for their fish is shown at pp. 7 to 10 of the report. Whether by contract in writing the association was obligated to pay to the fishermen the proceeds from the sales of their fish on the basis of quantity and quality less necessary expenses and reserves is not disclosed. The making of a marketing contract between the member and the association is obviously contemplated by Rules 7 and 8 (see Exhibit 'a'). The fact that the balance sheet





prepared by the company's auditor shows inventories of canned salmon on hand of a value approximately \$135,000 (Balance Sheet p. 21), and as a liability owing to fishermen for final settlement \$175,148.61, would indicate that the relation of principal and agent did not exist between the association and its members in respect of their fish. In the absence of a binding agreement between the association and its members requiring it to account for the proceeds of the sale of the fish less necessary expenses or a commission it would appear that the transaction is one of sale from the member to the association.

"The Kyuquot Trollers Co-operative Association was incorporated under the 'Co-operative Associations Act' on April 2, 1931, and a certified copy of its Memorandum of Association is filed herewith as Exhibit 'C.' The objects are generally similar to those of the Prince Rupert Co-operative Association though rather more extensive. Filed herewith as Exhibit 'D' is a certified copy of the Rules of the Association as amended to December, 1940, and attached thereto an amendment adopted on June 9, 1944. We draw attention to Rules 54 to 58 dealing with the payment of dividends and bonuses and providing, inter alia, that no dividend or bonus should be paid otherwise than out of profits."

It is not clear to me, from the reading of pages seven to ten, exactly how this is done, except that there is a final payment made to the department, and a further payment made. There is a discussion in the report of the expenses of the association in connection with fish. It is stated that members may be required



to enter into a marketing contract with the association but it does not say more than that about it. I suggest that the indication is that the association buys fish and sells that fish and makes a profit, out of which it decides what is to be given to the fishermen. It is fortunate that Mr. Macken participated in these proceedings, because of the clear way in which he explained the nature of the operation. The Fraser Valley are handling milk as agents for their members and any profit they make, if they make a profit, would have to be something in the nature of a handling charge. As I have shown by this balance sheet, these expensive assets and these obligations are assets and obligations of the association. They are not holding these fish. If the fish were held by them as agents for the fishermen they would not be an asset of the association at all.

With reference to the last sentence in the paragraph at the top of page ten, I have not the facts, and therefore Mr. Dean will have to explain the whole thing. But I take the facts that are available to me and I make that suggestion as an argument.

With regard to Kyuquot Trollers, you will find in the file a certified copy of its memorandum and of its rules. I draw attention particularly to rules 54 and 58, which provide the manner in which distributions or dividends -- I am not quite sure what they call them -- are to be made. The directors recommend the amount that is to be paid by dividend or to be paid as a bonus to the vendor and producer patrons of the association respectively. That is not limited to members.

As Exhibit "E" I file a certified copy of the balance sheet, and as Exhibit "F", there are given certif-



ied extracts from the report for the last year.

If the Kyuquot people buy fish from their members and sell the fish at a higher price, they may incur expense in doing so. I do not know whether they do, and there is no member of the cooperative to say so; but I would judge from the Co-operative Associations Act that anyone who likes can call the gain a surplus, though everyone else would call it a profit. If they handle as agents for their members on certain terms, making a handling charge or only expenses, an entirely different situation exists, and there is no profit except in the case of a commission where it is larger than its expenses. To continue:

"The nature of the arrangement between the association and its members is not disclosed in these reports, nor is there any indication of the arrangement under which dividends payable, presumably for a term of years, have been withheld, nor the nature of the arrangement between the members and the association as to the 'Revolving Refund Account' referred to in the statement of October 31, 1943."

I particularly direct your attention to that -- that the disposition of these moneys, which I call profits and which they may call surpluses or anything else, is in the hands of the directors and the members. The individual member has no property right in the money unless the situation is different from what I judge it to be after a perusal of their own financial statements. Their shareholdings are restricted to one share, but I may not be right in that. In most associations it is one share, but it is a small number in





any event. I will read from the top of page twelve:

"We are not clear from the available records, but we judge it to be the fact, that the amount of the final payment to be made on the fish purchased or handled by the association is determined by its directors. These are elected at the annual meetings of the association (Rule 38).

"To summarize the foregoing statements regarding these two cooperative associations: apparently between November 30, 1939, and October 31, 1943, the net worth of the Prince Rupert Co-operative Association, as shown by its financial statements, increased from \$37,972.96 to \$165,596.34. In arriving at this figure the amount paid up on the capital stock stated in the 1943 balance sheet to be \$76,424.41 is not reckoned as a liability. It appears from the 1939 and 1943 statements that in the interval the share capital increased from \$13,800 to the above figure \$76,424.41, being an increase of \$62,624.41. If the amounts of the paid-up capital be deducted from the association's own figure of its net worth in each case it is apparent that the difference between the figure for 1943 and that of 1939 has arisen from profits earned and retained by the association in the interval. This figure does not however exhaust the earnings of the association during this four (4) year period since dividends were apparently declared though not paid for the years 1940, 1941 and 1942 aggregating \$51,156.73 (see Exhibit 'B', p. 21), and considerable amounts have been set up as reserves. In the case of the Kyuquot Association the balance sheet as of September 30, 1931 (Exhibit 'E') shows a total net



worth of \$8,426.56, which as of October 31, 1943, (see Exhibit 'F') the association shows assets valued at \$129,604.44 with liabilities to the public of \$15,029.06 and loans from the members of \$4,325. The other liabilities of this association are shown under the heading of the 'Revolving Fund Account' above referred to and reserve funds and share capital. The 'Revolving Refund Account' is apparently made up of dividends payable but unpaid as of October 31, 1942, plus \$20,623.80 added to the fund during the fiscal year ending October 31, 1943. The funds in reserve are shown as \$21,823.18 and the share capital as \$8,090. The increase in the net worth of the association over this period of twelve (12) years, and the amounts required for the payment of these dividends and the others, if any, that have been paid, and the funds accumulated in the 'Reserve Account' result from the profits of the association during the period."

I think that is perfectly apparent because this is not a question of principal and agent here. These cooperative associations are shown by these statements as the owners of the assets, because if the money were owed to somebody it would be shown as a liability. I say, they are the owners of these assets. In 1939 Prince Rupert had so much in the way of assets; four years afterwards it had this tremendously increased amount and it is shown as its property and not as a liability.

Continuing on page thirteen, I set out that the whole question as to whether cooperative associations should be liable to income tax was considered at great



length in England by a Royal Commission appointed to investigate the subject in 1905 and 1920. The 1920 Commission was directed to inquire into this whole subject and the findings of the Commission are set out on page fourteen.

A committee was appointed by the Chancellor of the Exchequer in 1933 for the reason, I suppose, that in England the cooperative movement is stronger than it is anywhere else in the world. Cooperative associations there are of tremendous size and great wealth, and these matters were examined into at great length. I am sure that every conceivable argument that could be advanced in favour of the exemption of the profits of cooperative associations from taxation was put forward. I will not read the extracts which are set out on page seventeen from the report of the committee because I take it that the members of the Commission are no doubt familiar with these findings.

THE CHAIRMAN: We have all read that report already, Mr. Locke.

MR. LOCKE: However, Mr. Chairman, I would refer the Commission to one or two portions of the recommendations that are quoted on page fourteen of the brief. I read:

"We have already said that there appears to be no sound reason for differentiating between reserves invested in stocks and shares and reserves invested in property, and we recommend that the income derived from invested reserves should irrespective of the particular mode of investment, be subject to tax.





"We recommend, in effect, that a society should be treated exactly as a limited liability company trading in similar circumstances and under similar conditions, and if our proposals are acted upon it will be necessary to amend the existing law in so far as it confers special exemption on cooperative societies."

The point, gentlemen, appears to me to be this. If a member of a cooperative association is buying goods from a cooperative store, if there is a contract between him and the cooperative store that they will simply charge him the cost of the goods to the cooperative, they may charge him fifty cents for a pound of tea to begin with, and he may find as a result of the operations of the store that the cost has been less than that, and they will give him back five cents in respect of that pound of tea. In that case I see no income tax problem at all anymore than there is in any trade discount. The cooperative have in effect agreed in these terms: "We will sell you goods at cost and we figured that fifty cents was a fair price for tea, but it worked out at only forty-five cents. Therefore we return you five cents."

As I say, there is no problem at all. It is, however, quite different if a fisherman or a farmer goes to a cooperative to buy some implement or tool or some necessity of the trade which he is carrying on. In carrying on that business he is a taxable unit and must show the cost of his operation. If the person purchasing a net or a boat or an engine is carrying on a business in respect of which he has to file an income tax state-





ment with the authorities, he must show that expenditure as part of his cost of operation. What he must show is the net amount, not the original amount. He can show the original amount he paid for a net as expense, in which event he must credit the amount he gets back. I am rather puzzled as to what is the proper name for it, but he must enter that on the other side of the ledger or charge in his accounts simply the net cost of the article to him. It was for that reason that the Royal Commission in 1920 made this distinction, pointing out that to that extent such people must be treated differently from stores selling the necessaries of life. I read now from page fifteen of the brief:

"When the Committee appointed by the Chancellor of the Exchequer sat in 1933 representations were made and evidence given on behalf of the great cooperative associations in Great Britain and by large numbers of trade organizations representing members whose profits were subject to taxation. We judge that the main reason advanced on behalf of the cooperative associations for their contention they should continue to be exempt from taxation under Schedules 'C' and 'D' of the 'Income Tax Act' was that their members were carrying on 'mutual' trading which could not give rise to a taxable profit since a man cannot make a profit out of himself."

While I have read some of the arguments addressed to that Commission, I have not gone through them all. I do not know whether the cooperative associations



in the old country asserted that, as a matter of public interest and in the interests of the community at large, they should continue to be exempt as they have been from 1852. One of the arguments was that there was mutual trading, and I would judge that that also is contended here. I continue:

"These cooperative societies were liable to tax under Schedules 'A' and 'B' (that is in respect to lands and buildings owned by them whether in their own occupation or let to tenants and in respect of land in their own occupation), but since 1852 had been exempt from taxation under Schedules 'C' and 'D'.

"We assume from this that the same argument will be advanced before the members of your Commission by cooperative associations in Canada, and it is for this reason we have addressed ourselves to the task of showing that cooperative associations organized under the British Columbia Statute are so organized for the purpose of trading for profit, and that if they are to be judged by the results of the operations of the two associations to which we have directed our attention they do earn profits."

These societies, I submit, are organized for that purpose and they earn a profit. In the case of the Massett Co-operative, it is organized for that purpose, but from what Mrs. Simpson could tell us, they had not made any profit.

I have referred to the 1933 Committee, and you have all read their reports. You will see that their attention was directed to one of the very questions you are asked here; and you will note what the Parliamentary



Committee of the Co-operative Congress submitted. I quote the following: "It has always been clearly recognized that the surpluses created by this mutual association do not and cannot constitute a taxable profit."

I wish to refer to a small part of these findings. (Reading):

"The basic idea of the view that 'mutual' trading or at any rate some forms of 'mutual' trading cannot give rise to a taxable profit is that a man cannot make a profit out of himself. The owner of an article cannot make a taxable profit by selling it to himself at a higher price than he paid for it. Again approaching somewhat more closely to the position of a cooperative society if a number of persons combined to purchase in bulk an article which they all require each contributing to a common fund for the purpose, and the article is found to cost less than had been anticipated and the excess contributions are returned pro rata to the contributors, a contributor cannot be said to have received a taxable profit in the form of the excess of his contribution over the actual cost of his share of the article bought.

"Cooperative societies may have originated in associations approximating to a simple combination of this type, but the position of societies today is in our view essentially different. A society which is registered under the 'Industrial and Provident Societies' Act' is an incorporated body and it is clear from judgements of the courts since the Royal Commission reported in 1920 that an incorporated body is a legal entity apart from its members, the existence of this





entity seems to us to be a matter which cannot be ignored in considering whether there is true mutuality of trading or not. If any real mutuality existed we should expect to find a situation in which the contributor (in this case the member qua purchaser) retained as contributor an individual interest in his excess contributions. We do not find that."

I direct your attention particularly to that. I have shown from the statements of these cooperative associations that these profits -- I do not think they can be called anything else -- increased the value of the association in a limited time. The individual member does not own these profits, his only right being qua member. He cannot point to any dollar -- except those that have been held back -- and say, "That is mine; give it to me." So that the relation of principal and agent vanishes. I continue the quotation:

"A contributor cannot point to any part of the undistributed surplus on trade with members as representing his contribution and claim a right to dispose of that part of the surplus."

I quote further:

"We are unable to see any reasonable ground for holding that the undistributed surplus derived from the trading of a society with its members should be exempted from income tax by reference to the nature of the source from which it arises. We agree with the view of the Royal Commission on the income tax in paragraph 556 of their report that a true trading profit does result from the trading of the societies both with members and with non-members."



The recommendations of the committee are set out at the top of page eighteen. The brief goes on to state:

"We respectfully submit that the same reasons that impelled the Commissioners appointed in 1920 and the Chancellor's Committee to recommend that cooperative associations be treated in the matter of taxation in the same manner as companies and other organizations engaged in trade for profit are applicable to the situation in Canada. It must however be clearly borne in mind that whereas in England, while the income tax is levied in the first instance on the earnings of a corporation, when the corporation declares a dividend it is entitled to deduct from that dividend the proportionate amount of the income tax so paid attributable to the shareholdings of its members: thus while paid in the first instance by the company in the result it is paid by the shareholder. The dividend so paid however is deducted from the income of the company in determining the amount of its own income liable to tax. In Canada however the earnings of the company are first taxed and the dividends when paid to the shareholders are taxed again in their hands. We submit that there is no sound reason why limited liability companies and their shareholders and cooperative associations and their members should be treated differently in the matter of taxation and that accordingly the income of such associations should be subject both to income tax and excess profits tax as are the companies."

When I talk about profits I am talking about profits in the ordinary sense, in the sense indicated in



these balance sheets. A great deal of confusion is caused by the unfortunate use of the words "patronage dividend". If the association is buying merchandise on behalf of its members, and if there is something further to be given, in addition to the amount paid at first on account, how can anyone call it a dividend? That is the balance of the purchase price.

I have attempted to deal with this on page twenty. I quote:

"Consideration must be given however to the question as to whether the dividends or bonuses referred to in Sections 61 and 62 of the Statutory Rules or any part of them should be treated as a trade expense in determining the income of the association. We judge from the material which has been available to us that before the Commissions in England it was contended that the expression 'dividend' was in reality a misnomer and that at least in the case of cooperative stores the so-called 'Idivi' was in reality a discount on the amount of the purchase price of the goods similar to trade discounts given by some commercial companies to large purchasers of goods. We submit that if, and only if, by a binding contract or arrangement between the cooperative association and its members the association is bound to refund and does refund to them during the business year their respective proportionate shares of the profit realized on the sale to them of merchandise during that year the amount actually returned may properly be treated as an expense of the association."

The word profit as used there is unfortunate. Take the arrangement I have suggested: "We will sell you





goods and charge only what they cost us. We charge you fifty cents for a pound of tea at the beginning and if after deducting expenses we find that it cost us only forty-five cents we will give you five cents back." The difference in that case is not a profit but a discount or refund. I go on:

"In the case of food, clothing and other such necessities of life purchased by the member for consumption and use, the so-called 'dividend' being in the nature of reduction of the purchase price is not taxable. Where however, as is the case with the Prince Rupert Fishermen's Co-operative the association sells fishing gear and equipment of all kinds to its members, these goods being purchased for use in the fishing business, the dividend or discount should be taken into account in computing the profits of the members. In the same sense as the members of the Agricultural Society referred to in the recommendations of the 1920 Royal Commission were taxable trading units so are the fishermen members of the cooperative taxable trading units.

"These organizations, organized as we have shown, for the purpose of earning profits, and apparently earning profits, are very far removed indeed from the true cooperative associations set up in England about the middle of the last century. The Weavers of Rochdale, who in 1844 banded together to purchase food in quantities for their own consumption at reduced prices appear to be treated in the literature on the subject as the pioneers of the cooperative movement (see the Consumer's Co-operative movement by Sidney and Beatrice Webb, pp.1





to 6: Warbasse on Co-operative Democracy, pp. 14 and 15). It is a far cry indeed from cooperative efforts of this nature to large business enterprises of the nature of the great cooperative associations in Great Britain, and those now operating in western Canada. These latter are designated by the Statute under which they are organized as cooperative associations, but we think it is fair to say that in the case of most of them the name is a misnomer unless indeed all business entities carrying on business for the purpose of profit, with a view to the ultimate benefit of their members, are to be designated as cooperatives. Assuming that the two associations, whose operations we have above considered, are to be treated as typical of other cooperative associations, it appears that they earn profits from the handling of fish and fish products purchased from their members or dealt with on their behalf, invest in the shares of other societies which presumably return dividends, in the case of one of them invest money in bonds, and in the case of the other obtain revenue from the charter of a vessel, and operate stores in which very large quantities of merchandise are sold at a profit. We are unable to determine from the material available to us whether or not there has been returned to the fishermen during the years these associations have been in operation the full amounts realized from the sale of the fish less actual expenses, but it does appear evident that in the case of merchandise sold the profit realized has not been wholly distributed: whether from profits earned from one or both of these sources the large surpluses of both of these associations have been built



up we cannot say with certainty. That however the surpluses have been built up out of profits is a certainty. These associations compete in the market for the purchase of or the right to sell fish and sell fish either fresh, canned or otherwise processed, and fish oil and other like products in the market in competition with the companies. These operations are indistinguishable from those of commercial companies."

Dealing with the first of the matters upon which you have invited representations, namely, the present position of cooperatives in the matter of the application of the Income War Tax Act and the Excess Profits Tax Act, 1940, we are not here to criticize the wording of section 4 (p), but the wording itself leads inevitably to difficulties. As regards the income of fishermen's cooperative associations "organized and operated on a cooperative basis", and as regards proceeds from sales on the basis of quantity and quality less necessary expenses and reserve, the question arises: How much reserve? It does not say; neither does the Statute say; neither do the rules of the two societies say. Judging from anything that I have been able to find in the material that I have examined, if the directors so recommend, and the shareholders approve, they can take the whole profit resulting from the operation of stores and put it into reserve and it becomes the property of the association. It is a profit that has been earned and it is tax-free. How you distinguish between that and the operation of a joint stock company is to me a puzzle. I quote from the bottom of page twenty-two:



"The section does not attempt to define what constitutes 'a cooperative basis', nor does it limit the amount of the reserves which may be set up out of the sale price of the products of the members or of supplies and equipment sold to them and others. While the 1943 balance sheet of the Prince Rupert Fishermen's Co-operative Association shows as a liability income tax deductions of \$20,867.82, we judge that these are deductions made from monies payable to their members in respect to fish purchased or handled, and we find no reference in the accounts of either of these associations to income tax levied upon or paid by the association, nor to excess profits tax. From this we infer that no such tax has been levied upon either association. Both associations show dividends payable but unpaid from which we assume it to be the case that the members, while entitled to the dividends, have either loaned them to the association or that the latter has simply refrained from paying them. Whether the members have accounted for these dividends as part of their incomes, and where taxable paid taxes upon them we cannot say."

That appears to me to be the position of the co-operative associations today. They can buy from their members and sell and take any part of the profit and carry it into reserve and it then becomes the property of the association in exactly the same way as reserves appropriated by the directors and shareholders of joint stock companies. It becomes the property of the association; it has been earned and it is tax-free. I read again from the brief:





"As to the second matter, namely:-

(b) The organization and business methods and operations of the said cooperatives as well as any other matters relevant to the question of the application of income and profits tax measures thereto..

"We have endeavoured to the extent of the information available to us to show the method of operation of two of the cooperative associations engaged in the fishing industry. If these organizations choose to act as agents for their members selling or processing and selling their fish and accounting to them for the sale price less actual selling costs no income problem will arise. Furthermore if these associations choose to sell merchandise to their members and others either at cost or on terms that they will refund to their purchasers their due proportion of any profit realized on the operations of the stores no income tax problem arises. The evidence available to us would indicate however that out of one or other or both of these activities the associations earn and retain profits in addition to accumulating reserves. We submit that carrying on a business enterprise in this manner is not cooperative trading in the true sense: rather it is commercial trading for profit in the commonly accepted sense."

My clients do business all up and down this west coast. They are the only joint stock companies in the canning business on this coast. Continuing:

"The associations are in direct competition with



the companies. The companies are subject to very high rates of income tax now imposed, and in the case of some of them to payment of taxes under the 'Excess Profits Tax Act'. As has been stated there are approximately 1,800 shareholders of the companies. Great numbers of these are small shareholders whose financial resources are small. In the case of such of these as have taxable incomes all dividends received by them are in turn subject to income tax. We urge upon the members of your Commission that it is unjust to permit this situation to continue. The onerous burden of present day taxation should be imposed equally upon all persons engaged in trade for the purpose of earning profits. To exempt from taxation any of those engaged in trade of necessity imposes an added burden upon those who are subjected to taxation since they must provide the funds to make up for the exemption of those who are so favoured. We submit that this is contrary to the public interest.

"All of which is respectfully submitted.

A. B. C. Packing Co. Ltd., British Columbia Packers Limited, Canadian Fishing Company Limited, Cassiar Packing Company Limited, Colonial Packers Limited, Great West Packing Company Limited, Johnston Fishing & Packing Co. Ltd., Francis Millerd & Co. Ltd., National Fisheries Limited, Nelson Bros. Fisheries Ltd., Nootka-Banfield Co. Ltd., North Shore Packing Company Ltd., Queen Charlotte Fisheries Limited, J. H. Todd & Sons Ltd., and Westminster Cannery Limited."



I put our submission on the ground that taxation should be imposed equally upon all persons engaged in business for profit. There is nothing that I have said that would in the slightest interfere with the operation of a cooperative association which really operated as a cooperative. If they were really operating as cooperatives -- and I am not speaking generally; I am speaking only of these two companies, because I have not examined the statements of the others and therefore cannot criticize them in detail -- if, I say, they were carrying on their operations without profit, if they were selling goods consigned to them on such terms that they would account for the resale price, you could call that a cooperative association if you liked. I do not see any distinction between that and a situation where they might go to a commission merchant on Water Street. If farmers in the community, or fishermen in any particular community, went to a commission agent and entrusted to him the sale of their fish on the understanding that he would account for what he received for the product less commission, or less his expenses -- you might call that a cooperative effort if you liked. Or if an association operates in that way, then that is a cooperative effort, if they operate through a commission agent. But if they do not do that, if instead they carry on trade and make profits, and if such an entity is entitled to the profits--well, what is there to be said for them? What is there more cooperative about that than there is about the activities of my clients who are carrying on operations with money which shareholders have subscribed here and elsewhere in Canada and outside





Canada? They are carrying on business and earning profits for the company and for the ultimate benefit of their shareholders, and these cooperative associations are doing the same thing.

If a cooperative association wishes to operate a store, and if their members put up money to enable them to operate without making a profit, who can object? I do not see how anyone can object to that. If ten people like me go to a store and say, "We will supply you with goods at actual cost, and if what we get from you in the first instance is too much we will give it back," why does anyone call that a dividend or a profit? If a person goes to a large manufacturer and buys large quantities of goods and the manufacturer is able to give a discount for quantity purchases, 498 (a) of the code has nothing to do with that so long as the discount is announced. Any merchant can do that.

The discount which a purchaser gets back is not a profit. That is a deal, and if people want to make such deals that is their affair. If they benefit each other by doing so, far be it for me to say that they may not do it. No question arises. But when they choose to do business in this way, I say that is indistinguishable from commercial trading.

All the evidence I have put in, Mr. Chairman, is extracted from the public records.

THE CHAIRMAN: That is your case?

MR. LOCKE: Yes. I understand that Mr. Dean will give evidence at Ottawa.

THE CHAIRMAN: This submission is to be supplemented in Ottawa by Mr. Dean.





MR. LOCKE: I am not calling Mr. Dean, but I understood from Mr. Francis that Mr. Dean proposed to make statements in Ottawa on behalf of Prince Rupert, and my clients will want to cross-examine.

MR. ELLIOTT: After listening to these representations for long hours, I wonder whether it would be permissible to ask Mr. Locke to have the patience to review with me, in two or three minutes, the effects of this proposal, as I shall try to state them. Would that be reasonable?

MR. LOCKE: Quite.

MR. ELLIOTT: In the first place, if a cooperative can achieve its objects by acting purely as an agent for its members, your proposal would not contemplate their being taxed at all if they make no profits.

MR. LOCKE: If they make no profits, no.

MR. ELLIOTT: It is a pure agency and actually does not make a profit.

MR. LOCKE: There is no problem if it makes no profit.

MR. ELLIOTT: With regard to the second point in your proposal, if the cooperative purchases the product of its members on contract, as you have described, involving an initial purchase price and then an agreement to pay something further, and if that additional payment were made within a year, you would have no objection to that being called an expense of the cooperative?

MR. LOCKE: Not an additional purchase price.

MR. ELLIOTT: An amount which is specified in the contract with the seller.



MR. LOCKE: If the cooperative buys from a member on terms that it will pay him, as the purchase price of his fish, what the cooperative realizes from that fish, less expenses, the savings that the cooperative gives the member, whether it goes to him when they take delivery of the fish or later, is purchase money, and whether as a matter of accounting that should be set up as an expense or not, I am not sure. With my limited knowledge of accounting, I should think that the cooperative should show the price paid for the fish, the initial payment plus the final payment, and on the credit side of the balance sheet they would show their realization. If they were operating on that principle, then the expenses would make it balance. I can see no objection to that at all. Whether as a matter of accounting it is deductible as an expense or should be set up that way, I cannot say.

MR. ELLIOTT: But in any case, you would not propose to tax that?

MR. LOCKE: No. I do not see how you could logically propose to tax that.

MR. ELLIOTT: There is another element in what the British Columbia Act calls profits, however, namely the part apportioned to reserves or to the revolving fund, which is not paid back to the member within a year but maybe paid back after several years. You would consider that that ought to be taxable.

MR. LOCKE: Yes. If the member agrees, as they do by becoming members of these associations and as our act -- I do not know who drew it -- contemplate.

MR. ELLIOTT: But I am not asking that.



MR. LOCKE: If they agree that they can sell their product on terms that they will account to them for the sale price less expenses, but add this proviso, "If your members see fit you can take all or part of the purchase price and set it up as a reserve, and that reserve is the property of the cooperative", then it is a profit.

MR. ELLIOTT: Then you would tax them on the whole of what the act calls profits?

MR. LOCKE: The act does not call any particular part profits but it does contemplate the making of profits. I would tax them on everything that is not expenses or is not paid back to the members under contract.

MR. ELLIOTT: Under contract within a year?

MR. LOCKE: Yes, I think so, within a year.

MR. ELLIOTT: I will not pursue the point. I simply wanted to have the proposal made clear. If, then, a cooperative could achieve its purposes by reducing somewhat, after the tax was imposed, the amount set aside for this revolving fund or reserve, or whatever you like to call it you would have no objection to its avoiding some part of the tax.

MR. LOCKE: Oh, indeed, yes. I do not see why they should not make up their minds the same as the directors of a company. The surplus is the property of the association and is in their hands a profit that results from trading.

MR. ELLIOTT: With regard to another part of what might be called profits, namely, the return on share capital, if any cooperative decided not to pay any interest





on share capital, then it would not be taxable on such interest because it would not be received. No one would object.

MR. LOCKE: If anyone wants to invest money on terms that he does not get a return, that is his affair.

MR. ARNASON: Would you mind answering another question that has some bearing on the question that Mr. Elliott has been asking you?

MR. LOCKE: Certainly.

MR. ARNASON: In your submission you have indicated that where a cooperative provides a surplus for its members in such a way as to enable those members to purchase what might be termed household supplies or consumption goods, and if a refund is paid to those members at the end of the year, you would be prepared to consider that a discount?

MR. LOCKE: Yes.

MR. ARNASON: And not taxable?

MR. LOCKE: Certainly, if the discount is the difference between what they paid for the goods and the cost of the goods; but if you mix with the refund, interest on income from investments and other operations as they can do under the present act, then I say, certainly not.

MR. ARNASON: May I use a figure for the sake of illustration? Suppose the surplus available at the end of the year for distribution among the members is, let us say, \$1,000, and suppose that surplus is credited to the members on the basis of their purchases, and suppose further that by by-law approved by the members the sum of \$500 of these refunds is credited but retained by the



association for, let us say, one year, and then paid to the members in the second year, what would be your view of that \$500?

MR. LOCKE: What you are describing is a simple loan. The thousand dollars was something they were entitled by way of discount to receive at the end of the year. They said to the association -- or they agreed with the association willy nilly -- "You can keep that by way of loan and that is our money; you owe it to us, but you can keep it for a year." I do not see any problem there, and I do not see how anyone can object to a person's lending money without interest.

MR. ARNASON: One more question. In your submission you have pointed out that your clients and other joint stock companies engage in the canning industry?

MR. LOCKE: Yes.

MR. ARNASON: Have you any information which would indicate the proportionate dollar volume of business transacted by these companies as compared with the cooperative associations engaged in a similar activity on the coast.

MR. LOCKE: I have not got such information but it can be obtained. I believe that there are four principal cooperatives and the only way to get that information as to the extent of their turnover would be if Mr. Francis could get it for me. Perhaps I could get it from the Registrar of Companies.

MR. ARNASON: You would not be prepared to hazard an estimate?

MR. LOCKE: I will ask my clients. I will see if I can get some figures.

MR. VAUGHAN: When you say that these amounts



retained in reserve should be taxable -- that is what I understand you to say -- instead of being distributed, should it not be taken into consideration that a certain part of that money is refundable to the member and is just retained as a loan that may be put into reserve? Is it not merely a loan and is the amount taxable, if it is taxable, and earnings on that rather than the reserve itself?

MR. LOCKE: I know what you mean, but we cannot ignore realities. That money that is set aside as reserve is not the property of the members; it is the property of the association. If they have been buying and selling and if the members agree in these terms, "Out of our money you can keep so much", a reserve is set up out of that and that is money of the association and is shown as such in their balance sheets. You may say that they hope to distribute it some day, but I could say for the shareholders of a company, "I hope some day the company will be wound up."

MR. VAUGHAN: It is a matter of bookkeeping. Might it not as well be credited to the member of the association?

MR. LOCKE: As a matter of law I would say without hesitation that the reserves compensated by the Statutes are reserves which from the time they are set up, whatever may be the status of the money, become the property of the association. I would say that is a matter of law.

MR. VAUGHAN: But the bookkeeping could be done the other way as well. It could be credited to the members' account.





MR. LOCKE: Yes. There are all sorts of things that could be done. You are saying that if at the end of the year there was \$20,000 to be returned as a discount by the Prince Rupert Co-operative in reference to its store operations, if it called together the members entitled to the \$20,000 and said, "Lend us this money" -- well, of course, it would not pay tax on the money because the \$20,000 would not be subject to taxation. But that is not what it does. It is not a mere matter of bookkeeping; it is a question of fact. That \$20,000 set aside to reserves, those amounts I have shown you in the Prince Rupert Co-operative on the credit side represent the money of the Prince Rupert Co-operative and not the money of any member. That is fundamental.

MR. VAUGHAN: I do not understand it. To me, the most of that is due to the member as a rebate or an extra payment and is not the member's money.

MR. LOCKE: You overlook the fact that the Statute enables the directors and members to take all of that money or any part of it and set it aside, and it does not belong to the member but to the cooperative association, and the cooperative association is a legal entity. That is fundamental. It cannot belong to two people. Both the member and the association.

MR. VAUGHAN: Can it not be easily got around?

MR. LOCKE: No one can prevent the members of the cooperative from lending money to the association.

MR. VAUGHAN: One more question. In that part where you refer to supplies for the fishing industry being taxable, that is, that they should be charged with





the net amount, do you think there is any practical way of making a division as between what is for a man's personal use and what is for the business which can be taxed?

MR. LOCKE: It is something that can be done, but in the case of small operators like fishermen, you are probably right, and it would be difficult to do it. For those who are carrying on extensive operations it would be easy, but for the average small fisherman it probably would not. I am speaking of it as a matter of principle. I suggest how the act should read. It would be accounted for as a practical matter.

THE CHAIRMAN: That concludes that case.

MR. LOCKE: Yes.

MR. FRANCIS: There is one fact, Mr. Chairman, which I think is relevant. I wonder if Mr. Locke would have his clients furnish it. He referred to the fact, in argument, that there are many small shareholders in his companies. There are eighteen hundred shareholders representing capital of \$20,000,000 and that is more than \$10,000 for each shareholder; which must mean that there are many small shareholders and there must be some very large ones. Would a general breakdown be of interest to the Commission, to show how the wealth is distributed through this method?

THE CHAIRMAN: It would be difficult to get that. I should think it would take a considerable time.

MR. LOCKE: What good would it do? I would assume there are large shareholders and many small shareholders.



THE CHAIRMAN: That is almost obvious, Mr. Francis, that there would be large and small shareholders in an ordinary stock company.

MR. LOCKE: What difference does it make whether they are large or small?

MR. PARKER: The next case I propose to submit, Mr. Chairman, is very brief and probably we could finish it before the adjournment. It is number forty-eight, the Rossland Co-operative Transportation Society. It is the transportation case.

JOHN GORDON,

President,  
Rossland Co-operative  
Transportation Society,  
having been duly sworn  
testified as follows:

BY MR. FRANCIS:

Q. Mr. Gordon, you reside at Rossland?

A. I do.

Q. In the province of British Columbia?

A. Yes.

Q. You are the Mayor? A. I am the Mayor, yes.

Q. And have been for some years? A. I am serving my seventh term.

Q. What is the population? A. Approximately four thousand.

Q. What position do you hold in the Rossland Co-operative Transportation Society? A. I have the honour of being President this year.

Q. Will you, as President, present the brief on behalf of your Association? A. Yes. I might say, Mr. Chairman and gentlemen, that in the folders that have been handed out there are seven different departments, or rather the brief and six supporting departments



containing the following material: 1. Brief of Rossland Co-operative Transportation Society; 2. Constitution and by-laws memorandum and charter; 3. Balance sheet for March 31, 1933, first year of operations and for December 31, 1943, the latest one available; 4. Correspondence which the Society has had relevant to income tax; 5. Copy of brief submitted to British Columbia Government in 1939 in reference to provincial income tax; 6. Copy of report of delegation on the above submission; 7. Newspaper clipping from Rossland Miner of 1938, a special issue of that paper, known as the Historical Issue, put in as an exhibit showing the value of the cooperative society to the city at large.

I might say by way of preface that this is a different style of cooperative from any that has been submitted here previously, and for that reason, it may be of some interest. It is an example of such societies, of which there are six others. There are seven transportation societies in the province, and five of these are in the immediate vicinity of my own city. That is, we all carry on the same kind of business, which is the transportation of men to work at the city of Trail. These men come from north and south, east and west to one central point. The other societies have more or less copied our set-up. With that brief introduction I will proceed to the reading of our submission. It is as follows:

#### "Introductory

"There are certain fundamental basic principles under which all genuine cooperative societies are organized.





"These principles are recognized and incorporated in the Co-operative Association Act of B. C. For the most part this Act was designed and has been the pattern chiefly for 'Producer' cooperative societies or 'Consumer' societies. Little or no provision is made in the Act for organizing or operating what may be termed purely 'Service' cooperatives.

"It was therefore somewhat more difficult to organize and fit into the basic principles of the co-operative movement such a service as transportation. That such a service can be organized and operated successfully is demonstrated by the record of the Rossland Co-operative Transportation Society over the past twelve and a half years.

#### "Objectives

"This Society which was organized on May 2, 1932 and incorporated under the Co-operative Association Act of B. C. on June 29, 1933, performs the service of transporting some five hundred to five hundred and fifty members daily from their homes in the city of Rossland to their places of employment at the Consolidated Mining and Smelting Company, smelter and chemical plants at Trail, (some six miles distant), and return them home again.

"In 1932 the city of Rossland with a population of around twenty-eight hundred was, through the closing down of its gold mines, fast becoming a typical ghost town. There was no work available locally and men and their families were moving out every month to other centres where chances of employment were better. Many, however, were finding employment at the Consolidated



Mining and Smelting Company plant at Trail but in order to reach their work each day had to travel the six miles back and forth, night and morning. As Trail is situated at an altitude some two thousand feet lower than Rossland and in a part of the country where heavy snowfalls are experienced, and whereas it was necessary that rates for any form of transportation be kept to a minimum to be economically possible for the workmen concerned a major problem of how to provide this transportation had to be faced. Railroad locations and schedules did not provide the answer to this problem.

"Some of the bus companies tried to supply the service but could not provide it at a cheap enough rate to make it attractive (obviously a working man can only afford a certain percentage of his wages for this kind of service).

"It was to meet this situation that a group of men, twelve in number, got together in 1932 to attempt to organize a service that could be owned and controlled by the working men themselves.

#### "Incorporation

"As a result of this meeting the Rossland Co-operative Transportation Society was launched and quickly provided the answer to the problem. One five-passenger car was purchased to start the Society operating but so quickly did the idea catch on that other cars had to be purchased almost immediately. By the end of that first year the Society had over one hundred and twenty members and had purchased eight cars. By the end of the second year the membership had grown to over two hundred. The membership continued to increase year by year until today there are something like nine hundred



and eighty members on the books.

New equipment has been added from time to time as it becomes necessary and at this date in order to provide the Service the Society owns and operates a fleet of forty-four seven-passenger automobiles, which for purposes of standardization and interchangeability of parts are all of one make or nearly so.

"Facilities available to members only.

"It should be clearly understood that this fleet of cars was purchased and is maintained for this one special purpose only -- to transport members (and only members) of the Society back and forth to their work each day. It is not permitted to use the cars for any other purpose.

"The mechanics of operation are fairly simple, no professional chauffeurs are hired, but certain selected members of the Society, who themselves work at the same plant, drive the cars back and forth. As a certain number of the members work 'shift work' about fourteen or fifteen of the cars are required to do three trips a day. These groups rotate in the following manner:-

"First group, members on day-shift, cars leave the home garage 6.15 to 6.30 a. m. and arrive at the plant in time for members to change and start work at 7 a. m.

Second group, members on night-shift, then take over the cars and drive home.

Third group, members on afternoon-shift, leave the home garage 2.15 to 2.30 p. m. and arrive at work before 3 p. m.





"The cars are then in place to take the day-shift back home. No. 2 group (the night-shift) leave the home garage at 10.15 to 10.30 p. m. proceed to work and deliver the cars to the afternoon shift to take home. The cycle is thus completed.

"The balance of the cars make one trip each way daily, the men taking them down to work in the morning and parking the cars at the plant until ready to come home in the evening. The cars are then stored in the Society's garage overnight. For storage and servicing of the fleet of cars the Society owns its modern concrete garage and service station at Rossland, completely equipped to service and repair any of its units as required.

"A staff of two mechanics and two helpers are employed on monthly full-time salary for this maintenance work and a full-time secretary and two stenographers for the office and bookkeeping work. Gas, oil, tires and parts are all purchased at wholesale and used as required.

#### "Administration

"A Board of Directors of twelve men (six of whom are elected annually) elected by the members form the governing body of this Society, makes all its business decisions and formulates its policy from time to time.

"Standing committees are appointed from among these directors to whom are delegated certain specific duties.

"The Board of Directors have the power to set the fares to be charged in accordance with what amount





they consider is necessary to operate the business but in practice the rates have remained fairly constant during all the years the Society has been operating.

"Members are required to pay for each ride they receive, tickets being sold to them in books of fifteen. Up until October of 1944 daily records of members' rides were kept and submitted each two weeks to the pay office of the employers who in turn deducted these accounts for transportation from the pay due to the employees and paid same over to the Society.

"Disposal of Surplus Earnings.

"Records are kept, by the Society, of each member's purchase of tickets and the books of the Society are audited and balanced each six months by a chartered accountant.

"Copies of these financial statements are filed with the Registrar of Companies at Victoria each period and copies also mailed out to all members and are also presented by the directors at the semi-annual and annual general meetings of members.

"In accordance with the by-laws of the Society any surplus funds on hand at the year's end, after providing for necessary reserve and depreciation, are returned in cash to the members in the form of patronage dividends. The only exception to this rule is that members holding less than one full share of the Society's capital stock cannot withdraw this cash but can and do have it credited to their share-capital account.

"Share Capital and Membership.

"A member on joining the Society agrees to purchase shares of capital stock at the price of twenty-five



dollars (\$25.00) each share and pays a deposit of five dollars (\$5.00) as an initial payment and agrees to continue paying into his share account at the rate of five cents per day.

"A one dollar (\$1.00) membership fee, which is not returnable is also paid.

"The moneys realized from the sale of shares is used to purchase new equipment and also to purchase shares from members leaving the Society.

"As all members are required to continue adding to their share capital in this manner (that is by the five cents per day) certain numbers of them who have many years of membership tend to accumulate a large number of shares so, to offset this tendency and to bring their equity into a more balanced relation with the newer members, the Society adopted the practice a few years ago of purchasing all shares held by members in excess of four. That is to say that where a member was found to own five shares one was purchased from him, if he held six shares two were purchased and so on.

"These purchases were made by moneys from the share capital account.

"The by-laws provide that interest on share capital may or may not be paid. If interest is paid it may not exceed 5 per cent per annum. The decision to pay or withhold this interest is made at the annual general meeting by the members in attendance.

"Other Services Rendered.

"In 1934 when the Society acquired possession of new premises consisting of a garage and service station it branched out into other lines of business than transp-



ortation. An agency for the sale of cars was secured and a general service station was operated, catering to members and non-members. At the end of 1942 due chiefly to war-time restrictions this branch of activity was discontinued and the Society reverted to operating transportation service only.

"After the war the matter of reopening the garage and service business will be reconsidered, but the policy will be to confine our dealings to members only.

"Resent Financial Condition.

"The Society has always maintained a sound financial condition and at the present time has some \$18,600.00 invested in Victory Bonds as a reserve for future needs.

"The last financial statement dated June 30, 1944, shows a liability to the members on account of subscribed capital of \$46,466.00, which was well covered or protected by assets of over \$61,640.00.

"Economic Value to Community.

"Due to the hilly nature of the country, bus rates for ordinary passenger traffic between Trail and Rossland are very high, the usual rate being fifty cents for one way or ninety cents for the round trip.

"At the time this Society commenced operations the bus companies had decided on a special rate for workmen of fifty cents for the round trip with no guarantee of service to everybody. The Society set its rates in 1932 at thirty cents for the round trip and except for one short period these rates have remained constant ever since. Each year and since its foundation





the Society has found itself with a surplus on hand and this surplus, in accordance with the by-laws has been distributed as patronage dividends to the members; either in cash or in credit on share capital. As will be seen by the accompanying balance sheet for 1943, the amount so distributed for this year amounted to \$7,337.70, representing 14 per cent of moneys paid in.

"Experience on Income Tax.

"The Society has always contended both to the dominion and provincial authorities that this accumulated surplus should not be subjected to assessment for income tax purposes. They based their objections on two main points.

"1. That this surplus could not be considered as profits in the ordinary interpretation of that term but was in reality surplus moneys collected in excess of what was required for a certain period and belonged to the members who had paid it into the funds of the Society.

"2. That these funds being part of the wages or salaries of the members had already been subjected to income tax collection at the source.

"However, the Society has paid income tax but still under protest, and in the case of the B. C. Provincial Government following a conference between The Honourable the Minister of Finance and the officials of the Rossland-Trail District Co-operative Council in 1939, a measure of relief was secured, the government agreeing to exempt all the purely transportation activities of the societies involved from any future assessment of



their funds, and in our own case refunded to the Ross-land Society some \$271.00 that had already been paid on this account.

"Refer to accompanying copy of 'brief' and report for further information information on this matter. See file No. 5.

"The matter of obtaining the same measure of relief from the Dominion authorities was taken up at about the same time but while certain concessions were secured we did not secure complete exemption.

"For further information in this regard copies of correspondence, etc., are also attached, see file No. 4.

"Conclusion.

"In conclusion we would say that we have tried to keep this brief as short as possible and have therefore given only the bare outline of the activities of the Society but if more detail on some of the points raised or any other information regarding our activities is required we will gladly do our utmost to supply same to the Commission."

BY MR. FRANCIS:

Q. The brief is complete and therefore there are only two short questions that remain for me to ask the witness. Do your members, through their association, give particular attention to safety measures?

A. Yes, very definitely. One of the features is the bi-monthly meeting of the directors. At one of these meetings we are presented with a report with reference to the fleet. Each car is numbered on the list, and it shows the number of miles travelled in the period.



The best way to answer the question would be to give the total numbers which the fleet has travelled. Here is a sample copy for November, 1944. The total mileage covered by the fleet was 2,312,294 miles, and notwithstanding all that mileage there has not been a single accident.

Q. Do you take precautions against accidents?

A. Yes. We take extreme precautions to avoid accidents. The drivers are instructed that they must travel a maximum of twenty eight miles an hour only, and in second gear.

Q. And do they adhere to that? A. Yes, or else they don't drive any more.

Q. As Mayor, you have an opportunity to know what interest is taken in civic elections, and you are in a position to compare that with the interest taken in elections in connection with the cooperatives. How do they compare? A. The best answer to that would be to give a concrete example. In the 1944 elections in the transportation society there were six vacancies on the directorate and there were sixteen candidates. In the same year in the civic elections there were three vacancies on the council and there were three candidates.

Q. In other words, the interest is keen?

A. Yes, and the vote is heavy; there is a 75 per cent vote for directors, whereas you are lucky if you get 30 or 35 per cent on the council. It is democracy in action.

Q. In addition to the economic value, are there other values to the community of a fraternal nature, or advantages from the standpoint of goodwill?





A. I don't know if any of you gentlemen have ever lived in a small town, but if you have, then you have no doubt found that generally speaking there are two or three who carry all the heavy work. In my own case, during a period of two years, I have been carrying on as chairman of the Finance Committee and as chairman of various drives and so on. I have found one thing very definitely proved, and that is the good community spirit that has been built up. When I call for workers or committees to organize a drive of any kind the response is very heartening and is a credit to the community. It reflects credit on the work done by these transportation societies.

BY MR. PARKER:

Q. There is only one question which I wish to ask. I understand you to say in your brief that you have been paying taxes in years gone by? A. Yes. We did pay tax.

Q. And you took it up with the department and got relief at Vancouver but not complete relief at Ottawa? A. That is true.

Q. Attached to your brief there is a letter which is not dated. It is from Mr. Esling, who is the member of Parliament for that district. You say that certain suggestions were put forward. It makes no difference from whom letters come, but were you able to act on that? Did you take action in accordance with the suggestion? A. No, except -- well, yes; I would say we did gain some advantage from that, in that it encouraged our directors to distribute to the limit their patronage dividend.





Q. I notice also, as I read these suggestions, that so long as you confined your activities to your original idea, that is, transporting yourselves, that seemed to be a perfectly bona fide cooperative undertaking. A. That is the opinion expressed by the officials.

Q. But when you branched out and went into the business of a car-selling agency you were on the border line of getting into business? A. Yes. They were not prepared to treat that in the same light as our transportation activities.

THE CHAIRMAN: And did you confine your activities to transportation only from that time?

THE WITNESS: In a way we still continued operating the garage until 1942.

BY MR. PARKER:

Q. You state in your brief that you gave it up, but it is still open? A. Yes. The charter permits us to do it.

Q. I am wondering if that is not possibly your difficulty? I am not here to make suggestions but to get your views; but if you did go into general business would you not be departing from what you understand a true cooperative to be, and would you not therefore be subject to the incidence of taxation to some extent? A. Do you wish my opinion?

Q. I don't exactly want your opinion. However, what is your opinion? A. My own opinion is, and it has been demonstrated, that you can run any business on a cooperative basis and there is no reason why a garage and service station should not be run as well as a grocery store or any other kind of undertaking like that.



Q. Without making profit? A. Without making profit.

Q. You don't agree with the argument presented to the Commission this morning by Mr. Locke? A. No. I don't subscribe to that argument.

Q. You take the contrary view? A. Yes.

BY MR. FRANCIS:

Q. At the bottom of page five of your brief I notice that in the future your policy will be to confine your dealings to members only. The garage business you intend to make cooperative? A. If we reopen it, it will be confined to members.

BY MR. PARKER:

Q. I am referring to the selling of cars.

THE CHAIRMAN: Do you cover your operations with insurance?

THE WITNESS: Every possible angle is covered with insurance. We had a special policy with Lloyds of London which the ordinary passenger does not have.

BY MR. ELLIOTT:

Q. There is one small point. In the last six years, you say, you have paid no interest on share capital? A. That is true.

Q. That policy enables you to distribute more in refunds to your members as refunds than if you had to pay interest on share capital. A. Yes, because that would be charged to operating anyhow.

Q. I am not criticizing you; I simply wish to bring out the facts. Therefore, since these refunds to members are not taxable, the fact that you are not paying interest on share capital makes you subject to less income tax than you would be otherwise?



A. That is true.

BY MR. VAUGHAN:

Q. You are referring mostly to work people. I presume anybody can be a member and derive the benefits set out there -- not only work people.

A. It is true there are others who are not workmen who are members.

Q. Anyone who travels can become a member and get the benefits? A. Travelling between those two points at the specified times, yes. But we have members who have invested in the cooperative for the support of the transportation society rather than in order to derive any riding benefits.

Q. How do you get money to carry on and buy automobiles? A. We borrowed from the bank in the first place.

Q. You borrowed entirely from the bank for that purpose, for all your requirements? A. When large sums were required. One year we sent twelve drivers to eastern Canada to drive twelve cars home and we had to find seventeen or eighteen thousand in cash.

Q. Some of the reserves are used to buy motor cars when you are in the business of selling motor cars? A. Do you mean, when we were in the garage business?

Q. Yes. You needed money to buy cars in order to sell them? A. That was on consignment usually.

Q. Was any of the members' money used to purchase them? A. No.

Q. These were reserves? A. Yes.





BY MR. PARKER:

Q. Reserves plus the credit you got from the bank? A. Yes.

BY MR. VAUGHAN:

Q. I understood you to say that none of the reserves was used. A. No. That was kept as a separate department, and some of the old balance sheets show that. Since coming here I have received a letter from one of the other societies mentioned and they give a certain amount of information about members' rights and so on. If you wish to have it on the file I will hand it over.

THE CHAIRMAN: What security do you offer the bank for your loan?

THE WITNESS: In the first instance we have to give personal security but after we became incorporated they accepted us as they would any other business. We have Victory Bonds now.

THE CHAIRMAN: That concludes the case?

MR. FRANCIS: Yes.

The Commission took recess until 2 p. m.

.....

The Commission resumed at 2 p. m.

MR. PARKER: I propose to submit the next brief that has been filed, which is on behalf of the British Columbia Credit Union.

MR. FRANCIS: I will call Mr. Burns.

J. W. BURNS,

President,  
The B. C. Credit Union League,  
having been duly sworn testified  
as follows:



BY MR. FRANCIS;

Q. Mr. Burns, you reside in Vancouver?

A. Yes, that is right.

Q. And you are President of the British Columbia Credit Union League? A. That is right.

Q. Before you read your brief I would like to make a preliminary statement. The entire submissions on behalf of the Credit Union's movements in this province are grouped together in this one submission that is being made at this time. It involves scores of individual credit unions and two federations, and it was thought that by bringing them together in one brief rather than calling a number of witnesses it would save time and would be more satisfactory to the Commission and to the Credit Union Movement. The movement is quite new in this province although, as you know, in Quebec and in some other provinces it has had a long history. There is not as much, as in some other provinces, in the way of records, but during the last few years headway has been rapid, and the whole story will be told. This is the only submission that will be made on behalf of the Credit Unions. It is clear that the Credit Unions come within the terms of the Commission's reference. Will you proceed, Mr. Burns?

THE WITNESS: As already pointed out, we have three submissions, concerning Credit Unions in British Columbia, The B. C. Credit Union League and The B. C. Central Credit Union. The brief reads:

"General.

"Just as the Consumer Co-operative Movement sprang from the dire need of a hard-pressed group of



factory workers in England, so the 'People's Banks', or, as we know them here, the Credit Unions, sprang from economic distress of rural people. Raiffeisen, the father of the People's Banks in Germany, discovered that one of the primary needs of the small farmers in his neighbourhood was a type of money credit which the commercial banks could or would not supply, and they became quite often the victims of unscrupulous money-lenders who charged usurious rates of interest which kept those people in perpetual economic bondage. In spite of their abject poverty, Raiffeisen was able to convince them that jointly or cooperatively they could, through systematic savings, pool their meagre resources and thus create a fund from which the individual could borrow in time of need and distress.

"With certain modifications and adjustments, since their establishment in Germany about the middle of the last century, Credit Unions have found their way into practically every country of the world. On this continent the first Credit Union was formed in the year 1900 at Levis, Quebec, by Alphonse Desjardins, a journalist. Early in 1909, Desjardins came to Boston and aided in drafting the bill which made Massachusetts the first state to authorize credit unions. Edward A. Filene, a wealthy Boston merchant, played an important role in the development of Massachusetts credit unions which are still a model. While this legislation was being adopted, Desjardins journeyed to Manchester, New Hampshire, where he helped set up one of his 'People's Banks' among the local French-Canadians. This society, named La Caisse Populaire Ste. Marie,





enjoys the distinction of being the first credit union in the United States. Later other states followed the example of Massachusetts, so that now the federal government, forty-two states, the District of Columbia and nine provinces of Canada have laws governing the formation of credit unions.

"Local.

"The Credit Union movement in British Columbia can trace its development to the need which existed among certain groups of people, and to the fact that St. Francis Xavier University in Nova Scotia, was beginning to work out some remarkable experiments in co-operative endeavour. In both cases unemployment was rife and the workers were in dire circumstances. Under the aegis of St. Francis Xavier's work, a group of unemployed workers in a community adjacent to Vancouver set up in the year 1936 what they called a 'credit union', in a groping attempt to better their condition. At about the same time a group of transport workers operating between Vancouver and Seattle had developed a club for the purpose of saving up money throughout the year for Christmas expenses. While begun strictly as a saving organization, one member who had acquired a knowledge of the working of credit unions from his trips across the line observed that it was 'a shame to have the money lying idle throughout the year.' It was but a short step to develop this group into a Credit Union, with able assistance from Mr. Carl A. Andrus of the Washington organization.

"Here then, were examples of the need for legislation with regard to credit unions in British





Columbia. This was enacted in 1938 as a 'Credit Unions Act' (1) which came into force in 1938, promulgating a standard set of rules (2) and providing for the appointment of an inspector.

"Definition and Purpose.

"Briefly defined, a credit union is an association of persons united by some common bond or community of interest, such as common employment, business association, geographical location, common religion, or common racial origin, joined together in a mutual endeavour for the following purposes:

- "a. To encourage thrift by providing a safe, convenient, and attractive medium for the investment of the savings of its members, through a systematic plan of saving;
- "b. To promote industry, eliminate usury, and increase the purchasing power of its members by enabling them to make use of these joint savings in the form of individual loans to themselves at reasonable rates of interest for productive and providend purposes;
- "c. To educate themselves in the importance of thrift and the care of savings, thereby training themselves in business methods and self-government, and bringing to themselves a realization of the value of united democratic effort.

"The essential point of credit union theory and practice is to enable people to help themselves when help is needed. By promotion of thrift and wise borrowing the purchasing power of the group in which the credit



union operates is enhanced. The members can make their dollars go farther by having ready cash with which to buy in quantity and by effecting savings through elimination of carrying charges on goods which ordinarily would be purchased on the instalment plan. Society as a whole is benefitted by the increase in the living standards of low income groups. From this viewpoint alone credit unions believe their existence justified.

"Democratic Control.

"Control of a credit union is vested in the members through their annual meetings upon the basis of one member one vote. There is no proxy voting, and the rules provide for ten per centum of the members to form a quorum. These minimum restrictions alone would indicate the democratic nature of the credit union.

"Administration is accomplished by a Board of Directors, varying from five to twelve, elected at the annual meetings.

"Loans are granted upon the approval of the Credit Committee, also elected by the members. Here lies another reason for the popularity of credit unions: the Credit Committee, being members themselves, are familiar with the needs and the ability to pay of the applicants for loans, and consequently are in a position to deal more fairly and impartially with the matter than could any other agency. Since the purpose for which the money is required must be stipulated on the application and must be, in the opinion of the committee, for a provident or productive purpose and



of probable benefit to the borrower, it follows that not all applications are approved. Credit is easy but not necessarily lax.

"A Supervisory Committee is elected for the purpose of auditing the books quarterly and annually. This committee is responsible directly to the membership, and no member of this committee may serve on the Credit Committee or the Board of Directors.

"It is notable that all these committees, as well as the Board, are elected by the members, in demonstration of the democratic nature of the credit union. Further evidence of the spirit of the movement is found in the fact that no remuneration is allowed to members of the foregoing board and committee. Yet, there is usually keen competition for these offices at every election. It would appear that people, given the opportunity under a democratic economic organization, are inherently less selfish than the existing competitive system compels them to be.

"A treasurer is appointed by the directors who is, in practice, the general manager of the credit union. He may receive remuneration for his services but it is uncommon for him to be on other than a part-time salary. The treasurer and any other person handling money or securities of the credit union must be bonded. During the entire life of the movement in this province not one defalcation has occurred.

"Government supervision is maintained through filing of quarterly and annual reports with the Inspector, and by periodic inspections by him or his Deputy, both of whom are civil servants. Although there is no standard system of jurisdiction for credit unions across





Canada, in British Columbia they are under the Department of the Attorney General.

"Achievements

"Since authorization of credit unions by the Legislative Assembly in 1938, progress has been continuous and steady, as the following table shows:

|            | <u>Number of<br/>Credit Unions</u> | <u>Total<br/>Membership</u> | <u>Total Assets</u> |
|------------|------------------------------------|-----------------------------|---------------------|
| 1941       | 71                                 | 4,724                       | \$ 90,730.64        |
| 1942       | 85                                 | 7,570                       | 213,086.95          |
| 1943       | 109                                | 12,095                      | 503,281.70          |
| 1944(June) | 120                                | 14,883                      | 739,892.57          |

"Up to the present date one hundred and thirty-five credit unions have been incorporated, of which one hundred and twenty seven are now operating with a membership ranging from 16 in the smallest to nearly 1,400 in the largest and with assets ranging from a few hundred dollars to nearly \$150,000.

"There are four major types of credit unions, which, in British Columbia, may be classified as follows:-

|                     |    |
|---------------------|----|
| Community           | 58 |
| Occupational        | 43 |
| Organizational      | 25 |
| * Denominational(3) | 9  |

\* (3) This includes one credit union whose members are drawn from the congregations of several churches.

"The majority of credit unions are of the community type, but the bulk of the membership and assets are found within the industrial groups. Growth of the movement in British Columbia so far has been of two kinds, namely, (a) an increase in the number of



credit unions and (b) an increase in the membership of the existing credit unions. Not only has the movement as a whole grown but the average saving per member has also increased, as the above table shows. Growth so far has been spontaneous rather than directed.

"Although figures are not immediately available for the province as a whole, two large credit unions investigated show that their capital has been loaned more than twice. This would indicate that the total loans made by credit unions in this province approximates \$2,000,000. This extra purchasing power must have added considerably to the well-being of the people in British Columbia.

"Our credit unions have an enviable record, coming into existence as they did during the war years. They have invested many thousands of dollars in Victory Bonds and have aided and facilitated the sale of Victory Bonds to their members, in many instances providing an extremely low-cost loan for this purpose. Order No. 75 of the Wartime Prices and Trade Board, together with the shortage of consumer goods, has curtailed to a great extent the avenues through which loans would ordinarily be made. Consequently several credit unions, finding themselves with excess funds, have ventured into the field of real estate loans. In this way many people have been enabled to take steps towards acquiring through construction or purchase a home which would have otherwise been denied them. In a small way these loans have, no doubt, played a part towards alleviating the existing housing shortage.



"Through their membership in the British Columbia Credit Union League, the credit unions of British Columbia are affiliated with the Credit Union National Association whose headquarters are in Madison, Wisconsin. This international body tends to reconcile the various shades of political opinion, religious belief, and racial origins which exist in the ranks of the movement. The National Association has devised a standardized set of accounting forms which are followed almost exclusively throughout this province. The Association has also set up a great Mutual Insurance Society for the principal purpose of insuring loans against the death of the borrower and also for insuring the savings of members. This latter plan is unique in financial history inasmuch as it undertakes to double the savings of a credit union member upon his death.

"The operation of this Life Savings Insurance can be best explained by a case history. A certain credit union member had to his credit upon enlistment the sum of \$1,429.79. The war clauses in our credit union insurance are of a generous nature, and this member was not discriminated against when he was killed in the Italian campaign. The effect of this insurance is to double a member's savings up to the first \$1,000, so the mother of the member concerned now has \$2,429.71. This mutual insurance society operates as a cooperative, returning to the credit unions any premiums paid in excess of the actual cost of operation and claims.

"The foregoing demonstrates that tolerance and security are characteristics of the Credit Union movement.





"Operation."Interest Rates.

"In line with the usual cooperative practice of selling at the market price, credit unions charge interest on their loans a rate not exceeding 1 per cent per month on the unpaid balance. On a loan of a \$100 repaid in twelve monthly instalments this amounts to \$6.50 which compares more than favourably with the rates charged by many finance corporations. Although this is twice the rate charged by certain banks specializing in small loans, the most comparable example is a well known commercial bank which also insures outstanding balances of loans, as the Credit Unions do. Even in this case, however, there are many advantages in borrowing from a credit union. One of these is that the borrower is also a part owner and as such has his voice in the control of the organization -- which he does not have in the case of the bank. Loans from credit unions are relatively easy to obtain, based as they are on the borrower's character rather than his collateral.

"Distribution of Surplus.

"Since the members of a credit union are mainly working people, the loans they obtain are relatively small in amount. The interest they pay constitutes the principal source of income of the credit union, out of which it has to pay the cost of operation and limited return on the members' savings. The dividend paid rarely exceeds 3 per cent, and sums in excess of the amount required to pay this interest are normally rebated to the borrower as a patronage dividend in proportion to the amount of interest he has paid. There



is no justification for any plan which contemplates taxation of such a return of over-charged interest.

"Reserves."

"To ensure maintenance of a sufficiently liquid position to meet ordinary withdrawals of savings, credit unions are required to have at all times in cash, in bank, or in the Central Credit Union 5 per cent of all long term savings (shares) and 25 per cent of all short term savings (deposits). As is the case with chartered banks, notice of withdrawal may be required, but in practice this rule is not invoked. In addition to these cash reserves, a statutory reserve or Guarantee Fund is maintained to cover losses arising from bad loans or non-realizable investments. This is built up year by year by the allocation of 20 per cent of the net surplus distribution.

"Shares."

"In several instances the terminology used with regard to credit unions is often misleading. The very name 'Credit Union' has an unpleasant connotation for some people, despite the fact that it really implies a 'People's Bank'. Another misnomer is particularly evident in the case of long term savings which are commonly known as 'shares.' These savings are not shares at all in the ordinary sense of the word, inasmuch as no certificates are issued. No numbers are given, and they are withdrawable practically upon demand. The only justification for the use of the term 'share' is to define a 'unit of saving'. For all practical purposes they are analagous to savings bank accounts.



Since interest on savings accounts is not taxed at the source, it is submitted that interest or dividends on credit union 'shares' should not be taxed.

"Recommendations and Conclusions

"To sum up, it might be said that credit unions are cooperative people's banks run on the same general principles as consumer cooperatives. Both consist of groups of persons banded together to do something which they cannot do as individuals. Their members believe that the taxation of thrift and saving would be a retrograde social step. As low income groups who are endeavouring through their own efforts to raise their standard of living, they feel that government effort should be directed to assist rather than to hamper them.

"As far as deduction of income tax at source on the nominal interest paid to saving members of credit unions is concerned, the amount of work involved in computation as compared with the revenues derived would be completely unwarranted. In addition, since most of the members of credit unions belong to low income groups, and since many members are children and housewives with non-taxable income, the government would, we believe, be compelled to refund more tax money than they would actually retain.

"Credit unions have, within a generation, become an integral and potent force in the social and economic life of Canada. Their continuous growth and negligible losses have demonstrated a fact previously much doubted, namely, that the average man is honest if given a chance. They have filled a gap in





the credit structure of our society, and have demonstrated that a need existed for such a movement.

"In addition to meeting the immediate needs of their members, credit unions and cooperatives exercise a stabilizing influence upon the economy of a country. By extending purchasing power, they lessen the likelihood of accumulating surpluses of goods with the resulting reduction in employment. This fact has been demonstrated in the Scandinavian countries in pre-war times where cooperative enterprises were most highly developed. These countries experienced economic fluctuations, it is true, but the amplitude of the curve of boom and depression was slight. It would appear to be a wise course to foster the development of cooperatives and credit unions and not to hamper their growth and operation by any form of tax legislation.

"Section II - B. C. Credit Union League.

"History

"Prior to 1944, the credit unions of British Columbia were unofficially organized into the B.C. Credit Union League which had grown out of an earlier organization known as the B. C. Credit Union Association. The legislation enacted in 1944 permitted Credit Unions officially to join the League and pay dues thereto. The unique feature is that the league is in actuality a cooperative association and is incorporated under the 'Co-operative Associations Act' rather than the 'Credit Unions Act'. Although the latter Act permits cooperatives to join credit unions, the B.C. Credit Union League is the only cooperative to which credit unions may belong, and its membership is confined solely to credit unions.





"Objects

"The specific objects of the B.C. Credit Union League are laid down on pages 5 and 6 of the Constitution and By-Laws. Although not admissable for incorporation purposes, the League's prime reason for existence is the general fostering and furthering of the credit union movement.

"Organization

"The B. C. Credit Union League, composed of one hundred and twenty one credit unions is organized and operated along cooperative principles, each member credit union being entitled to one delegate and one vote at the annual meeting. This body elects eighteen directors, each from a different credit union, and a Supervisory Committee of five members. Further to ensure a wide representation on the Board Directors, it is stipulated that not more than nine directors may be resident in the area of Greater Vancouver

"Capital is obtained by the sale of five-dollar shares to member credit unions to the maximum of one share per \$10,000 of the member's own capital. Up to the present time, however, share holdings (with one exception) do not exceed one share per member.

"Operation

"Incorporation of the League was sought under the 'Co-operative Associations Act' because the League is not itself a credit union. It is a service organization and with three departments: -- Publication, Stationery Supplies and General Services. According to the by-laws, each department operates 'in a financially



autonomous manner'. For example, the Publication Department's principal business is the printing and distribution of an official organ, 'The B.C. Credit Unionist', subscriptions for which are credited to the member credit unions. At the close of the fiscal year, any surplus accruing from the operation of this department is returnable to the credit unions upon the basis of the subscriptions sold to their members. The Supply Department maintains and operates equipment for producing stationery and accounting forms, tending towards standardization of procedure in credit unions throughout the province. All the standardized credit union forms at present used in British Columbia, as well as a considerable volume of custom work, are now being produced by the Supply Department of the B. C. Credit Union League. In this case, also, surplus accruing at the close of the fiscal year is returned to the credit unions as a patronage dividend.

"The general operation of the League is financed by dues paid by the credit unions on a per capita basis or as a percentage of interest income, whichever is the greater. In effect, although not measurable in dollars and cents, the credit unions receive in services such as organizational assistance, accounting advice, insurance bonding, and educational material the equivalent of the dues paid.

#### "Achievements

"The fact that one hundred and twenty one of the one hundred and twenty seven operating credit unions are members of the League would indicate that the League is a representative as well as popular body.



"Until incorporation in 1944, the problem of financing was acute, as working capital was non-existent. Despite this handicap, a substantial patronage dividend was declared last year.

"The League has been instrumental in securing improved legislation, not only to effect its own incorporation and that of the B. C. Central Credit Union, but also to better the operation of credit unions in the province. It has acted as a clearing house of ideas through its annual meetings, and has tended to reconcile within its ranks various shades of political, religious, and economic beliefs. In many ways the B. C. Credit Union League has been a stimulating and unifying factor in the Credit Union Movement in British Columbia.

#### "Recommendations

"The B. C. Credit Union League submits that it is a service organization for the following reasons:

- a. Its Publication and Supply Department operate as cooperatives, returning surplus to the members as patronage dividends;
- b. Its general operation is financed by dues paid by the members in return for services rendered. No surplus accrues from the general operation and the more dues the more service rendered.

"In short, this body gives back to its members all that it receives, and (need we labour the point) therefore could not justifiably be subject to taxation.

#### "Section III - B. C. Central Credit Union.

#### "History

"At the annual meeting of the (incorporated)





B. C. Credit Union League held in Victoria in June, 1943, a committee was set up to work out details of legislative amendments necessary to effect incorporation of a Central Credit Union and to draft a Constitution and Rules (5). This work was accomplished during the winter of 1943-44 and the necessary legislation passed early in 1944. In May of that year the B. C. Central Credit Union came into being, holding its first annual meeting in June.

#### "Organization

"Membership in the B. C. Central Credit Union is open only to Credit Unions and cooperative associations incorporated under British Columbia laws. Control is vested in the members through the annual meeting to which each member may send one delegate with one vote. At this meeting nine directors are elected, each from a different member organization. With the same proviso, a Credit Committee of five and a Supervisory Committee of three are elected. The directors appoint a manager and assistant manager. The duties of the officers and the organization in general are similar to those of an ordinary credit union.

#### "Objects

"The objects of the B. C. Central Credit Union are, in general, merely an extension of those of individual credit unions, being comparable to a community credit union, save that its common bond embraces the entire province. It exists to provide a repository for the surplus and reserve funds of its members and to make loans to the members from the fund thus created.

#### "Operation



"The work of the B. C. Central Credit Union has been limited by its short duration. The capital consists of shares purchased by the members on the basis of \$5.00 for each \$1,000 of the members' total assets as of the preceding December 31st. These shareholdings are subject to revision annually in light of the member's balance sheet as of the close of each year. Deposits are accepted from members and interest allowed thereon at 1-1/2 per cent per annum. On loans the rate is 4 per cent per annum on the unpaid balance.

"With one exception, loans so far granted have been solely to credit unions for the purpose of re-lending to their members. It is relatively easy for credit unions to obtain loans from the 'Central', as they are empowered to borrow up to 25 per cent of their own capital upon the sole security of the signatures of their officers and with the sole approval of the Credit Committee of the 'Central'. Co-operative Associations must obtain, in addition, the approval of the Inspector of Credit Unions before being granted a loan.

"The principal difference between the operation of the Central and that of individual credit unions is in issuing monthly statements to the members rather than pass-books. And, of course, no insurance covers deposits or loans since the members, being corporate, do not die natural deaths.

#### "Achievements

"With the seven months' operation there is little to report save that membership now consists of fifty three credit unions and two cooperatives. Assets total



approximately \$15,000, of which \$3,000 is vested in seventh Victory Loan Bonds, and approximately \$6,000 is out on loans. When normal conditions return, a heavier demand for loans is anticipated.

Recommendations

"The B. C. Central Credit Union contemplates a patronage dividend as a routine part of distribution of surplus, although it has not yet completed a fiscal year.

"The arguments advanced with regard to exemption from taxation of credit unions apply to the case of the B. C. Central Credit Union. Since the members own the Central Credit Union, any form of return made by the Central to its members ultimately represents a saving in costs to the individual member. As such, there should be no taxation.

"A corporate tax on an institution with a spread from 1-1/2 per cent in interest paid on deposits to 4 per cent charged on loans would be stifling. To tax the income derived from an interest over-charge which will be returned is unwarranted. We submit that credit unions are not subject to corporate tax. Thus, the return made to them by way of interest or dividend on Central Credit Union shares or deposits could not be taxed at source since it comprises a part of the income of a tax-exempt group. In the final analysis any tax upon a central organization such as the B. C. Central Credit Union would constitute a hidden tax upon the ultimate credit union member.

"Respectfully submitted  
on Behalf of

The B. C. Credit Union League."





Documents filed by The B. C. Credit Union League:

Exhibit "A" - 'An Act Respecting Credit Unions.

Exhibit "B" - 'Constitution and Rules.

Exhibit "C" - Constitution and By-Laws of the B.C.  
Credit Union League

Exhibit "D" - Constitution and Rules of the B.C.  
Central Credit Union

.....

BY MR. PARKER:

Q. I do not know that there is any particular point on which the Commission would like further information in addition to what is set forth in the brief, unless there happens to be some confusion about the relationship of these three institutions one to another.

A. Would you like me to clarify that?

THE CHAIRMAN: I think the members of the Commission would like to know the set-up of these three organizations.

THE WITNESS: The credit unions are set up as independent groups. The British Columbia League is the parent body of all the credit unions; that is, it brings them together so that they can work together to better advantage. Under the act we are allowed to receive dues from each credit union. We have nothing to do with loans. We look after educational work because we are only the parent body of the credit union.

BY MR. PARKER:

Q. Let us take a small unit, the so-called credit union. That, I take it, is incorporated under the Credit Unions Act? A. Yes.

Q. And in a word, the purposes and objects of the credit union are principally to receive deposits from its members? A. That is right.





Q. What is the relationship of the man who puts up money, the member, to the unit? Does he buy shares and place his money in the payment of shares or deposit it with the Union or loan it to the Union?

A. He is a member of that Union and can purchase a share, or in some cases they have deposit accounts.

Q. But he does buy shares? A. That is right.

Q. Any number he cares to buy? A. Some credit unions in their by-laws limit the number of shares to five hundred or some such figure.

Q. Suppose he buys a certain number of shares and pays so many dollars for them. That goes to the Treasury of the Credit Union? A. Yes.

Q. In addition to that he makes deposits as in a bank? A. He could in some cases, but the credit unions do not have deposit accounts.

Q. That is the ordinary thing to expect. On what terms does he deposit it -- as in a bank, receiving interest on monthly or quarterly balances? A. The practice is the same, I believe.

Q. At a rate to be fixed by whom? A. The Board of Directors.

Q. So that from the sale of shares or from deposits received by members the Credit Union has a substantial sum of money at its disposal? A. Yes.

Q. What is the purpose of building up the fund? A. So that the members when they need a loan have a place to borrow.

THE CHAIRMAN: Are there any other sources of establishing this capital?



THE WITNESS: No. That is their sole place to receive capital.

BY MR. ARNASON:

Q. They can borrow? A. Yes, but that was not the point.

BY MR. PARKER:

Q. Is it the purpose and the practice, in making loans, to confine them strictly to the members?

A. Yes. Under the act they have to.

Q. Who fixes the rate of interest on which loans are made to the individuals? A. There is a limit, which was mentioned here, of 12 per cent per annum -- that is the top -- or 1 per cent per month.

Q. Is that the same thing? A. We are beginning to wonder.

Q. Are you restricted to 12 per cent per annum or 1 per cent per month? A. At the present time we are instructed to charge 12 per cent.

Q. Under the set-up are you restricted by law to 12 per cent per annum or 1 per cent per month? A. Twelve per cent is mentioned in the act.

Q. I understand that, but that may have been misinterpreted to mean the same as 1 per cent per month? A. Everyone thought that until a short time ago, but after working it out we found that it made a fraction of difference.

Q. The practice is to charge the maximum? A. Most credit unions do.

Q. As a general rule; that is a fair way to state it? A. Yes.

Q. Let us say a union has been organized and



makes a number of loans during the year. The rate of interest it receives is considerably in excess of that which is paid on the deposits? A. That is right.

Q. You mentioned one and a half to four?

A. That would be about right.

Q. Out of that 3 per cent -- I do not know what it is, but let us say 3 per cent -- increase of receipts over disbursements is used for paying off expenses? A. Yes.

Q. And incidental things; and having paid that, you have some left? A. That is right.

Q. What becomes of that? A. We also pay insurance premiums on members' savings and also on their loans.

Q. Including that as a part of the general charge? A. Any surplus is given back as a share dividend at the end of the year, or some is given as a patronage dividend.

Q. Let us say you have \$5,000 after you have paid insurance and so on. A. Yes.

Q. Now let us see what you do with it. You have now outstanding a certain amount of share capital?

A. Yes.

Q. Do you first pay a dividend on that share capital? A. Yes.

Q. What percentage? A. Around 3 per cent.

Q. It varies with different unions? A. They have the right to pay six.

Q. In practice, as far as your knowledge goes, it goes to three? A. We recommend that.

Q. What do you mean by "we"? A. The league.

Q. Then you have some left. How do you apportion





it? A. The balance left is given back usually in patronage dividend.

Q. You call it patronage dividend. What do you mean? A. Suppose I had paid in ten dollars in interest during the year for loans and we were able to declare a 10 per cent patronage dividend, I would be estimating 10 per cent on the amount of money I paid in interest.

Q. The amount of patronage dividend any person gets is based on the amount of interest he has paid on his loan? A. Yes.

Q. So that if a member has been fortunate enough not to supply for a loan during the year he does not participate in the patronage dividend?

A. That is right.

Q. But the man who does secure a loan and therefore does secure a small patronage dividend gets that dividend -- isn't this true? -- partly at least by the use of other members' money which you handled?

A. Yes, that is right.

Q. That is scarcely in accordance with the principle of mutuality, or everybody being treated alike. A. The way we look at it is this. There would be nothing to pay to anyone if a person did not borrow money and pay interest, and if there is a surplus at the end of the year, after people have been paid a fair rate of interest or dividend for their shares, which we said was 3 per cent, why should not the balance go back to the person who had paid it?

Q. I cannot answer that. I want to find out what does actually take place. Is this a fair way to



state it: that the man who ordinarily makes a small loan receives a loan which, I assume it is safe to say, is in some cases at least greater than the amount that he has himself on deposit? A. I would not say in all cases or in the majority of cases.

Q. Would you not say in the majority of cases? A. I suppose so.

THE CHAIRMAN: Take the member who makes no loan during the year. How does he benefit from the organization?

THE WITNESS: By receiving 3 per cent dividend at the end of the year and having his savings insured by us one hundred per cent up to one thousand dollars.

BY MR. PARKER:

Q. Do you think your insurance is better than the guarantee of one of the big chartered banks?

A. We were talking of savings. I don't know of any bank that insures savings. When I referred to the banks here it was in relation to unpaid balances on loans. We were speaking of the credit unions and stating that the credit union insures the savings of each member, and if a member had \$1,000 saved he would receive double that amount, or rather I should say his estate would receive that amount on his death; and apart from that he receives 3 per cent dividend at the end of the year.

THE CHAIRMAN: What do you call his savings?

THE WITNESS: Shares or deposit accounts. Both are insured.

BY MR. PARKER:

Q. That is how that operates; and you have told us where they get their money, how they handle it, and



what you have done with it. Speaking from recollection, one hundred and twenty one out of one hundred and twenty seven have joined this British Columbia League?

A. Yes.

Q. Are these institutions one on top of another -- the individual unit, the British Columbia Central Credit Union and the British Columbia League, which is the daddy of them all? A. There is no relation except that the credit unions affiliate with the League. We will go on with the League.

Q. What is the relationship between the individual credit union and the British Columbia League?

A. The relationship is that they are the League.

Q. A federation of unions? A. Yes.

Q. And there is a general supervisory body over all? A. Yes.

Q. They give advice? A. Yes, and services.

Q. What does the service consist of?

A. If the treasurer had any trouble with the bookkeeper we would be prepared to go and offer assistance.

Q. Free of charge? A. Yes. We realize that if we wish to progress in the movement we must form new credit unions.

Q. Prosyletizing as you go? A. Yes, if you like; and the only way that can be done at the present time is through the League itself. We send people to various places to organize new credit unions and we also have bookkeeping supplies which we sell to the members.

THE CHAIRMAN: It is the body that records new members?

...  
...  
...

...  
...

...  
...

...  
...

...  
...

...  
...

...  
...

...  
...

...  
...

...  
...

...  
...

...  
...

...  
...

...  
...

...  
...

...  
...

...  
...

...  
...

...  
...

...  
...

...  
...

...  
...

...  
...

...  
...

...  
...

...  
...

...  
...

...  
...

BY MR. PARKER:

Q. New unions? A. Yes, it is a service organization.

Q. Does it cost anything for a unit to become a member of the League? A. Yes, one dollar.

Q. One dollar per year? A. One dollar to join, and you purchase one five-dollar share in the League and then they pay 7 per cent on total interest income or 10 cents a member.

Q. Seven per cent on interest they get on individual loans? A. Yes, 6 per cent this year.

Q. The Central gets its revenues first from the initiation fee of one dollar, a certain amount of share capital and a percentage of their individual takings or earnings? A. Yes.

Q. Are those the three factors that make up the funds of the League? A. Yes.

Q. Any other sources? A. No, except that we mention the fact that we have a supply department which operates autonomously by itself and pays a patronage dividend back to the credit union, and there is a magazine which we sell to subscribers.

THE CHAIRMAN: That is part of the education programme?

THE WITNESS: Yes. It is an educational magazine which we produce monthly.

BY MR. PARKER:

Q. By "we" you mean the League? A. Yes.

Q. Is that department, or that part of the League, operated at a profit? Is it self-sustaining? A. Yes, and has a little left over.





Q. And you add that to the general funds of the League? A. A certain percentage will come in by reason of the fact that they borrow from our office and we charge them for the use of equipment.

Q. After you pay the expenses of publishing the magazine you have a little balance? A. Yes.

Q. And that is added to the general fund comprising the three sources I have mentioned?

A. Not in its entirety. Being a cooperative we pay patronage back to the credit unions.

Q. But you do not pay all back; you retain a portion? A. A certain amount for services.

Q. I see there is a figure of \$15,000?

A. That is the Central.

Q. What has the League in its possession right now in the way of funds? A. I would hate to hazard a guess but we would be practically bankrupt, I would imagine.

Q. Is that more or less a chronic state of the League? A. It is a natural state.

Q. And if you are bankrupt where do you go for relief? A. We wait a while. We cease activities and cut down until we receive dues for the next year. We try to budget ourselves.

Q. You budget with the idea of coming out even? A. Yes.

Q. That is as regards the individual unit and the League. Try to tie into that the Central union? A. The Central Credit Union is a credit union of which different credit unions and cooperatives can become members. Units join it.



Q. The members of the Central Union consist of so many ordinary commercial operatives? A. Yes, and credit unions.

Q. On the one side there is the ordinary commercial cooperative and on the other side a bundle of individual credit unions? A. Yes.

Q. What does it cost credit unions to get into the Central Union by way of fee? A. \$2.50 entrance fee.

Q. And they buy shares in the Central Union? A. No. Well, they put their money there in the same manner as a credit union. They can put share capital in or deposits.

Q. You spoke of what to all intents and purposes were not shares although sometimes called shares? A. Yes.

Q. You made a correction in the brief. You said that no certificate is issued to represent that; therefore it should not be called a share? A. That was in the Credit Union brief. That refers to the credit unions and it refers to the Central, which is a credit union.

Q. When the local credit union joins the Central Credit Union it pays an initiation fee? A. Yes, \$2.50.

Q. And in addition has to buy a share? A. Under the constitution they have to hold a certain amount of shares so as to have a stable capital.

Q. They must buy it in order to hold it? A. Yes.

Q. And they pay for these shares? A. Yes.

Q. And when they do that, what are they issued as evidence that they have bought a share? A. They are



issued a share certificate.

Q. The same as any ordinary company issues a share certificate. It is evidence that they have bought a share. What else do they do? A. They pay an initiation fee and they buy one or more shares; that is all.

Q. The Central Credit Union has some funds?  
A. Yes. Apart from purchasing a share in the Central they can deposit funds.

Q. Whose funds? A. Their own funds.

Q. Which individuals have first deposited with them? They make up a bundle of individual deposits and deposit that with the Central? A. Yes.

THE CHAIRMAN: You are a species of wholesaler?

THE WITNESS: We have a Central Credit Union, which Credit Union might have a seasonal demand; and by them putting a surplus of money, which they cannot loan, into the Central, when the fish season comes along the fishermen's credit unions might need additional money and they borrow from the Central.

BY MR. PARKER:

Q. The Central is a pool receiving the aggregate that the individual unions might loan? A. It is a credit union's credit union.

Q. The Central then loans to the local?  
A. Yes.

Q. On an interest-paying basis? A. Yes.

Q. What rate does the local pay to the Central when it borrows from the Central? A. Four per cent on unpaid balances.

Q. And the local pays to the individual





depositor one and a half? A. That is right.

Q. The local borrows from the Central and pays the Central 4 per cent? A. Yes.

Q. Then what does the Central do with the 4 per cent -- the total of these various items of 4 per cent? A. They have overhead, and the money might not all be loaned out all at one time. If they have a surplus left over at the end of the year it is remitted to the credit unions in patronage.

Q. What do you mean by that? A. I don't want to say something that might not be right. This Central has not operated a full year and I would like to see their year finish. I might say something definite and I might be wrong.

Q. I don't want you to commit yourself to anything you are not sure of.

MR. FRANCIS: There will be another brief submitted, from a similar credit society or union with several years' records, in one of the central provinces.

MR. PARKER: We can assume that the policy followed by this union will likely be the same as the others.

MR. FRANCIS: It is likely to be.

THE WITNESS: We adopted a good deal of the Saskatchewan Act in ours.

MR. PARKER: I wanted to know whether it would be determined on the amount of interest paid, but I will not press for an answer.

BY MR. FRANCIS:

Q. Some reference was made by my learned friend to the interest rate of 1 per cent per month on unpaid



balances, or 12 per cent per annum. That, I understand, is the maximum? A. Yes.

Q. The maximum allowed by the act. As to whether the maximum was set, or the lower rate, that I take it is entirely within the control of the members? A. Yes.

Q. If they wish to reduce it to six, as they do in some cases, that is a matter for them. A. Yes.

Q. And this is the limit, not the standard? A. Twelve per cent is the limit; it is not given as the standard.

Q. Would the same answer apply to the other rates of interest to which reference was made, namely, 3 per cent and 4 per cent? A. Yes; that could be changed by the Board of Directors at any time.

Q. It is entirely a matter for the members? A. Yes.

Q. The members have democratic control for the principle of one member one vote? A. Yes.

Q. I take it that credit unions are not limited in their operations to the cooperative institutions? You have heard a witness this morning representing private interests. Do you know whether its employees are organized into a credit union? I refer to Mr. Buckerfield? A. Yes; they have a credit union.

Q. Among the employees? A. Yes.

Q. The credit unions are not limited to the employees of the cooperative organization? A. Oh no; they are open to anybody.

Q. One other question. From your experience so far, are you able to say whether the existence of a credit union in a community tends to help the people



to save? A. That is proven. In the majority of cases that has been true. We can give instances where previously people had little in the way of savings until they had a credit union. The reason is that in most groups the incomes are so low that people feel reluctant to go to a bank with fifty cents, because the bank wants at least a dollar. On the other hand, we have members who now have \$100 or \$150 which they have saved by putting aside twenty-five cents out of every pay and they have never missed it.

Q. Your experience up to date shows that it fills a need that was not taken care of before.

A. Definitely.

MR. VAUGHAN: Shall we meet with any large unions as we move along?

MR. FRANCIS: Larger.

THE CHAIRMAN: We shall be going into the province of Quebec.

MR. FRANCIS: I shall personally be representing a group of credit unions later on, including the society after which this was patterned.

BY MR. NADEAU:

Q. Is a member of the credit union allowed to draw cheques? A. No, not here. We are not allowed to do so in this province.

BY MR. ARNASON:

Q. So far as income tax is concerned, to your knowledge have any credit unions in British Columbia had to collect the tax? A. We have never been notified to do so; no.

MR. PARKER: It was understood, Mr. Chairman, that





Mr. Macken might wish to say a word.

MR. MACKEN: I apologize for not being here this morning, Mr. Chairman, and with your permission I would like to file certain addenda to our main brief in view of the stress placed by Mr. Farris on the Associated Dairies' transaction.

THE CHAIRMAN: That constitutes the answer.

MR. MACKEN: It sets out certain facts, in connection with Associated Dairies, to be added to our main brief.

MR. FARRIS: I have arranged with Mr. Macken that if there are further facts called for I will write to him.

THE CHAIRMAN: Do you propose to make any reply to Mr. Farris' argument yesterday?

MR. MACKEN: Not at this time, Mr. Chairman.

MR. PARKER: I propose to take up the Mutual Fire Insurance brief. In form, this brief is slightly different from any that we have had to date. It is signed by The Mutual Fire Insurance Company of British Columbia per the managing secretary. I understand that the company is not represented by counsel but by Mr. Barrett-Lennard, Chartered Accountant, who I assume helped to prepare some of the statistics. He is here and so is Mr. Townsley. Personally, I have no objection. It is a matter for the Commission to decide whether we will have non-counsel appear in the role of advocate in the presentation of briefs on behalf of clients or whether we are to restrict it to some official of the company appearing in person or by solicitor. It is for the Commission to decide.





THE CHAIRMAN: I do not expect that anyone but counsel will take up the cross-examination of the witness.

MR. PARKER: It puts Mr. Barrett-Lennard himself in a slightly difficult position if he is to play the double role of witness and advocate. I may want to cross-examine him.

THE CHAIRMAN: Counsel do not usually enter the witness box. The Supreme Court has severely reprobated the practice of counsel, who has appeared on behalf of clients, entering the witness box except in special circumstances. Do you wish to get into the witness box and speak under oath, Mr. Barrett-Lennard?

MR. BARRETT-LENNARD: There are some parts of the brief that I would not wish to swear to from my own knowledge.

MR. PARKER: I wanted to get a ruling as to whether chartered accountants or other gentlemen other than counsel might appear here in the capacity of advocates.

THE CHAIRMAN: I would not be too strict in the enforcement of the rules in that regard. This is not a court and we do not wish to eliminate any information on that basis.

W. J. BARRETT-LENNARD, C. A.,

The Mutual Fire Insurance of  
British Columbia,  
having been duly sworn  
testified as follows:

BY MR. PARKER:

Q. You are a chartered accountant? A. Yes.

Q. Residing where? A. In Vancouver, in public



practice since 1914.

Q. And you are going to read the brief on whose behalf? A. On behalf of the Mutual Fire Insurance Company, British Columbia.

Q. Have you been auditor of the company for some years? A. Since 1924. I regret that Mr. Townsley, the Manager Secretary, is not well enough to come to the court and present the brief himself.

It reads as follows:

"The Registrar,  
Royal Commission on Co-operatives,  
C-o The Postmaster,  
VANCOUVER, B. C.

Dear Sir:

"In addressing this brief to you we are speaking only for ourselves, a group of approximately three thousand rural dwellers, who has chosen to continue a practice which has been in existence in the older parts of British Columbia for upwards of fifty years, that of guaranteeing one another against loss by fire.

"This company was organized in the year 1902, commencing with ninety-five policy holders and a risk of \$114,430.00, and it has carried on down to the present day with varying fortunes. It has not had a single suit at law over settlement of losses and it wound up its business on the 31st December, 1944, with 2956 policy holders and a risk of \$6,529,017.00.

"In the early days farm insurance was difficult to obtain at reasonable rates - a statement which the incorporation of this company makes self-evident - and many farmers were without assurance of protection. There was some dependence upon neighbors, however, as it was not an uncommon practice for the hat to be passed around when one



or other was burned out. The funds which were obtained in this manner were of definite assistance to the recipient, but as their source depended too much upon the size of the contributor's heart rather than upon the size of his pocketbook, a more equitable method was sought. The matter of insurance protection was eventually taken up through Farmers' Institutes, and the result of their discussion was the 'Mutual Fire Insurance Companies Act' which provided a method of organization.

"This Act provided a more solid basis for contributions. It gave the force of law to an erstwhile indefinite arrangement and brought a measure of government control to the business and funds of any group availing itself of its provisions. It was based upon the principle already followed by the farmers' group, the inalienable right of a man to go to the help of his neighbor, and to do that without hope of profit.

"The company was not organized with any intention or desire to make profits and rates were set which were expected to be sufficient to pay expenses and losses, and to provide for that reserve which the Act calls for. Its financial history since the year 1910 is given in Statements #1 and #2 attached. We regret that the profits prior to that year and the figures entering into its composition, are not now available.

"The company has no shareholders and no share capital. The general policy is in the hands of its members, those who from time to time are the holders of subsisting policies and, as a consequence, any surplus funds, should the company's affairs be wound up at any time, would be the property of the then existing members. There is no provision





in the Act for distribution under any other circumstances though there is inherent in its provisions the right to reduce rates should the members so desire. A reduction of rates below the cost of carrying insurance would provide an effectual method for the distribution of such funds as might be considered in excess of requirements. The carrying on of its business from day to day is placed in the hands of a Board of Directors, annually elected, and in the hands of a manager-secretary who is appointed by that board.

"While there is no intention to make profits good business practice should ensure, if possible, that there will be no deficit. Unfortunately, due to the setting of too low a rate from the company's inception to the end of the year 1931, a deficit (shortage in reserve) was accumulated, though an assessment was levied in the year 1924. A further assessment was levied in 1931 and collection of that assessment in the years 1931 and 1932 restored equilibrium.

"The company's directors then reconsidered the rate structure with the result that there was a slight upward revision. This increase, coupled with a lower loss ratio, has since that time resulted in the accumulation of the present reserve. This stood at \$55,806.37 at the end of December, 1943.

"An observer may suggest this reserve is greater than is required and that a distribution should be made, or that the rates should be lowered. The directors know from past experience that there are good and bad periods, and that there have been series of losses in successive years which have seriously impaired reserves. In the years 1930, 1931 and 1932 the fire losses totalled



over \$107,000.00 and they are not at all certain such losses may not once again occur. They are, in fairness to existing members, selecting risks with great care and are making more and more frequent inspections of the risks. They are not unaware that fire risks may have been reduced as a result of the opening up of the country; they have considered rate reduction; have revised the company's experience and they are fairly well satisfied there will not be any necessity for a resort to assessments, but they have not yet come to the point where decision has been reached as to a reduction in rates.

"The question of the taxing of the profits of co-operatives is before your Commission. Apart from all other considerations, we submit that this company makes no profits; that experience proves that a surplus of revenue over expenditure in one year may be turned into a surplus of expenditure over revenue in the next; that this company is simply a legalized partnership with losses or gains for the account of the individual partners; that the members are entitled to be taxed in their individual capacity so long as other partnerships are so taxed, and that no attempt has been made by the directors to ascertain what the actual profits may have been, if any.

"It is assumed any equitable method of taxing profits must be based upon ability to pay. Supposing one of our members has been conducting his business at a loss. Where would be the equity in taxing his slight interest in this mutual company and thus increasing that loss? What would be the equity in taxing a company and due to the fact that it has only one source of revenue, forcing it to increase rates?

"It may be suggested that the taxing of incorporated



companies and not taxing cooperatives gives the cooperatives an unfair advantage in competition. That is as it may be, but the taxing of cooperatives just for the purpose of protecting others would be a reactionary step detrimental to the interests of thousands of small people, and it would not remove competition, as there would still be partnerships and individuals to consider. The 'profits' of this company have not exceeded an average of \$1650.00 per annum since its inception and there are many partnerships and individuals whose profits have been much greater.

"It may be said that the Treasury is losing revenue as a result of the present policy of not taxing the surplus funds which may accrue to cooperatives from time to time. That may be so. It is just as true as the statement there would be greater revenue if partnerships and individuals were taxed at the higher rate. There is more than revenue to be considered. There is the welfare or conditions of many citizens to whom a few dollars per year means so much. If the Treasury taxes them in one way, by so doing depletes their resources, it is conceivable that it may have to assist them in another.

"It is submitted that there will be no equity or taxation on ability to pay until all taxation is reduced to the basis of the individual.

Yours respectfully,

THE MUTUAL FIRE INSURANCE COMPANY  
OF BRITISH COLUMBIA

Per: Grant C. Townsley,  
Manager-Secretary."

Documents filed with brief:

1. Statement Financial History - 1st January, 1910, to 31st December, 1943 - Mutual Fire Insurance Co. of B.C.
2. Statement of Surplus Account - 1910 to 1943 inc. - Mutual Fire Insurance Co. of B. C.
3. Copy By-laws Mutual Fire Insurance Co. of B. C. (adopted February 11, 1942 - amended February 9, 1944)





BY MR. PARKER:

Q. Mr. Barrett-Lennard, I have only a few questions to ask you. At the bottom of page three of the brief, halfway down the page there is this statement:

"It is assumed that any equitable method of taxing profits must be based on ability to pay." Is that your own personal idea of the proper way to impose taxes, or is it taken from some book on economics?

A. That happens to be my own idea and the idea of the members of this company.

Q. What do you mean by ability to pay? A millionaire may have all kinds of money and another man may have an income of two thousand. He has ability to pay and the millionaire's ability to pay may be much greater than the small man's. Must it be in proportion to actual ability to pay -- in other words, taking all that the traffic will bear? A. No.

Q. What do you mean? A. There is a certain amount which every man must have in order that he may be able to live.

Q. Does anyone know what that is? A. Not exactly.

Q. Do you? A. No.

Q. Do you know anyone who does? A. No.

Q. Go on from there. A. I know it is easier to live on five thousand than it is on one thousand.

Q. I would not dispute that for a minute.

A. Therefore, if a man has an income of \$25,000 his ability to pay -- the percentage of that -- is much greater than the ability of the man having a thousand per annum to pay the same percentage.





Q. That is what you mean by ability to pay?

A. Yes.

Q. One other question. Take the last three lines at the bottom of the page where you say that the profits of this company have not exceeded an average of \$1,650 per annum since its inception. Have the profits of the company amounted to only \$1.650 or more? A. They have varied.

Q. They are around that figure? A. Yes.

Q. That is, the profits of the company? A. We don't quibble over the terms profits.

Q. This company of yours makes profits?

A. Will you repeat that?

Q. I am using your expression; I want to be sure. You state that the profits of this company have not exceeded an average of \$1.650 per annum. Do you want the Commission to take from that that this company has made profits to the extent of \$1,650 per annum for the last three years? A. Not for the last three years but the average over its whole life.

Q. They have earned profits? A. Yes.

Q. They have made profits in most years while occasionally there has been a loss? A. You have the statement; it shows a variation.

Q. In most years they have made profits and in some years they have made a loss. A. We will get it down exactly if you want to. They have made losses in about a third of the time.

Q. I am not interested in the number of times, but there have been years when they made profits and years when they made a loss. A. Yes.



Q. Assuming that the company's operations had been so carried on that instead of having \$1,650 about two thirds of the time they had \$50,000 every year, they would be the same kind of profits and the only difference would be in the amount? A. Yes.

Q. On what basis do you say that a company making \$50,000 a year profits should not pay income tax on its profits? A. I don't see why you should ask me that hypothetical question. This is a fact-finding body.

Q. I think it is a question I should ask you.  
A. Then I would rather not answer it.

Q. Why -- because you cannot or because you do not want to? A. There might be other factors to deal with besides the \$50,000 profit.

Q. I am assuming, just as you assume in your brief that it has made profits. If it has made profits, I do not care whether they are large or small, I want to know why you do not think they should be subject to income tax the same as the profits of any other company? A. Because this company is not organized for the purpose of making profits for itself.

Q. Does the purpose for which it was organized make a difference? A. I would say it had not made profits for itself but for its members.

THE CHAIRMAN: Is not your answer clause (g) of section 4 of the Income Tax Act?

THE WITNESS: I have not got that, sir. It is difficult to answer that because I do not know to whom this profit will go. It can only go ultimately to the members of the association.



BY MR. PARKER:

Q. Are you familiar with the section which the Chairman has referred to? A. Yes.

Q. Let us assume that that section was not there, that there was no statutory exemption. I am speaking without reference to the act, and I am asking you whether these moneys which you earn, which you yourself have called profits, are in fact profits of the company. A. I would not say they are profits of the company.

Q. Then why do you refer to them as such?

A. They are profits of the partnership.

Q. You don't say that. You frame your brief on the assumption that they are profits of the company. It is an important point. A. Yes.

Q. They are profits of the company.

A. You will notice in my brief I put quotation marks around the word profits.

Q. Yes, I notice that. Why did you put those quotation marks there? A. Because profits are such an indefinite thing.

Q. Therefore you must surround it with quotation marks. A. The word profits can be used in so many ways that I would hesitate to state whether these are profits or surplus or what they are.

Q. You just don't know. A. We know that profits are a gain.

Q. In other words, you don't know whether this company, which you have been auditing for years, makes profits or not? A. Oh yes, I do. I know they have made a gain.





Q. I asked you whether you knew they had made profits. A. Who for?

Q. I did not ask you that; I don't care whom they are for. A. Yes; they have made profits.

THE CHAIRMAN: Profits are desirable but hard to define.

THE WITNESS: Yes sir. We know that we have them when we have them.

MR. PARKER: My object in asking the question is to assist the Commissioners to get an idea of what profits are.

MR. HAM: Mr. Chairman, I am appearing on behalf of the Joint Stock Insurers, providing fire, casualty, and automobile insurance on a cash plan in Canada. I should like to ask the witness a few questions.

THE CHAIRMAN: Very well.

BY MR. HAM:

Q. Mr. Barrett-Lennard, for the purposes of these questions, if I refer to excess of income over outgo as surplus, that will be satisfactory? A. Yes.

Q. The company is incorporated under the British Columbia Fire Insurance Companies Act and the head office is in Vancouver? A. Yes.

Q. And you write only fire insurance business and not other branches -- automobile or casualty?

A. The fire insurance in rural districts.

Q. And that is "rural" as defined by the act? A. Yes.

Q. And you only write in the province of British Columbia? A. Yes.

Q. That is contract business? A. Any business.

Q. You don't accept reinsurance? A. No.



Q. You do place reinsurance, do you not?

A. Not exactly. When we get a risk over \$5,000, if a man wants coverage we reinsure. He gets insurance of \$2,500 on top of that from Lloyds.

Q. But it is Lloyd's policy? A. Yes. We don't reinsure, although we may write a joint policy.

Q. In writing a policy you quote a premium to the applicant. A. Yes, a three-year premium payable one third each year.

Q. It is quoted in dollars? A. Yes.

Q. How is the amount of the premium arrived at? Have you a schedule of rates for different types? At the time he takes out the policy do you take anything else?

A. We take a premium note which is an amount equal to 2 per cent of the amount of the policy.

Q. Of the face value of the policy? A. Yes.

Q. What happens to that note? A. That is put to one side. It is a guarantee held during the term of the policy.

Q. To what use can it be put? A. If the statutory reserve fell below the requirement there would be an assessment levied on the basis of the face value of that premium note.

Q. And he would either have to pay the assessment when levied, within a certain period of time, or he would lose his policy? A. His policy would be cancelled.

Q. You mentioned in your brief that while there was no intention of making profits, it was impossible to make an estimate so that it would work out even in any year's operation. There may be a surplus or a deficit?

A. Yes.

Q. I have here, through your courtesy, copies of



documents which I would ask you to identify and file as an exhibit. This is a specimen of policy of the British Columbia Mutual Fire Insurance Company.

MR. PARKER: This company?

MR. HAM: Yes.

THE WITNESS: And this is a specimen of a premium note of the same company?

THE WITNESS: Yes.

BY MR. HAM:

Q. There are no other documentary evidences of the relationship of the insurer to the insured or of the insurance contract? That makes up the whole? A. It occurs to me that you might want the application.

Q. That forms the basis? A. Yes.

Q. We would like to have the application.

A. We will get it and turn it in.

THE CHAIRMAN: You can send it to the Registrar?

THE WITNESS: Yes.

BY MR. HAM:

Q. You stated that the occasion on which the assessment might be made would be when the reserve fell below that required by the Statute; you would make an assessment on the premium note, in the judgement of the directors? A. They would be forced to if it dropped below the statutory reserve.

Q. Does the company write the form of policy that is permitted under the act by virtue of section 27, known as a non-assessable policy, or insurance business on a cash basis? A. Yes. We write a small amount of business on a cash plan, an annual policy usually.

Q. And there is no premium note given with respect to that? A. No.





Q. Can you give an estimate of the relative amounts of business written on the assessable basis and on the cash plan? A. I have no computation but it would be below 5 per cent. The company discourages that.

Q. On that cash business, on those transactions, there might be a surplus of income over outgo with respect to that particular class of business? A. There might be a loss.

Q. And if there was such a surplus to whom would that surplus inure? Who would derive the benefit of it? A. That is a difficult question to answer. It would accrue finally to the benefit of the members upon winding up unless there was a profit that came into being, which could be used to reduce the cost of insurance and the cost of the premium charged to the member.

Q. That would go into the general surplus? A. Yes.

Q. Your assessable policy holders would derive a benefit in that they would have a right with respect to it, although they might not be able to assert their right to it. At any rate, they would have a voting right to it and it would inure to that extent to their benefit? A. Yes.

Q. This is perhaps somewhat academic, but in your experience as an insurance agent, do you see any possible way by which you can arrive at the cost of carrying an insurance policy by the insurer? A. I think you can only arrive at it from year to year.

Q. That is, by setting premiums against losses, and that would have no bearing with respect to the cost of carrying a particular policy? A. No.

Q. There is no method you know of whereby anyone can arrive at a figure indicating the cost of carrying a





particular policy, whether there were losses paid on it, total or partial, or no losses at all. The best that can be said would be the cost on the average with respect to insurance operations for the year? A. Yes.

THE CHAIRMAN: How does your premium compare with that of the ordinary company?

THE WITNESS: I only know, sir, that at the present time we are above a competing company in one district.

THE CHAIRMAN: By how much?

THE WITNESS: About 20 per cent.

BY MR. HAM:

Q. Mr. Barrett-Lennard, with reference to your statement in the brief you said something on page three about the possibility of the profits of one year being counter-balanced by losses or deficits in the succeeding year. That would be true of any business as well as insurance, would it not? I think you will find it on page three, in the second paragraph. It is a statement that appears in your brief. A. There are wide fluctuations, as evidenced by the history of this company, in its profits or losses from year to year; but there are also wide variations in the profits of farmers, who might lose a crop, of mining companies who might run out of ore, or of fishing companies who might not catch fish, or of a great many of the stable industries or businesses.

Q. Insurance is subject to possible catastrophic hazards. A. Yes, it is hazardous.

Q. With respect to the first paragraph on page four do you allege that the insurance of mutual corporations as a whole is with the lower income group?

A. I don't think I have any knowledge of that.



Q. Just a question with reference to the penalty imposed generally by companies upon cancellation? Your practice provides a penalty where the insured cancels the policy during currency. He does not get back pro rata. A. No; we retain the equivalent of three-months' premium after the first year. The first year there is no refund at all.

Q. And afterwards there is a three-months' penalty for cancellation? A. Yes.

Q. Such penalty would appear in the surplus of the company, if it did have a surplus, to the extent of the penalties collected. A. The surplus would be influenced by that.

Q. And it might ultimately inure to the benefit of assessable policy holders? A. Yes.

Q. Your company has a reserve accumulated over the years? A. Yes.

Q. These reserves are invested? A. Yes.

Q. How were they accumulated? A. Out of profits of the company from time to time.

Q. Out of surplus? A. Yes.

Q. From time to time you might have reserves in excess of those required by statute? You don't have to keep them down to that. A. We have no other place to put any excess.

Q. It is not uncommon? These reserves would be invested and would yield earnings. A. Yes.

Q. And these earnings would appear in the surplus, if any, or reduce the deficit? A. Yes.

Q. And to that extent they would inure to the benefit or profit of the assessable members of the company?



A. Yes.

Q. One last question. Did your company at any time pay Dominion Income Tax under the War Income Tax Act or under any provincial statute? A. We have never paid Dominion Tax but we did pay and we are still paying to the province. For some time the company was charged under the provincial act on its gross premiums. Now they are being charged on some premium income under the Fire Marshal's Act.

Q. That is a premium tax, a turnover tax, as distinct from income tax? A. It is not income tax.

Q. I don't know whether British Columbia did have a provincial tax as such? A. We have never filed income tax returns.

MR. PARKER: The next brief to be presented is that of the Salmon Arm Farmers' Exchange of Salmon Arm, British Columbia.

MR. FRANCIS: I will call Mr. Pike to the stand.

P. E. PIKE,

Treasurer,  
Salmon Arm Farmers' Exchange,  
having been duly sworn testified  
as follows:

BY MR. FRANCIS:

Q. Where do you reside? A. Salmon Arm.

Q. What is your position? A. I am manager-secretary-treasurer of the Salmon Arm Farmers' Exchange.

Q. How long have you held that position?  
A. Since 1940.

Q. This brief is presented on behalf of what might be called a fruit cooperative? A. Yes.

Q. Will you please present to the Commission your brief on behalf of the Association.





THE WITNESS: Our brief reads as follows:

"This brief summary is submitted in the hope that it may be of some slight assistance to the members of your Commission.

"The Salmon Arm Farmers' Exchange of Salmon Arm, B. C. was incorporated in 1907, under the Institute's Act.

"The aims and objects as set out in the by-laws are as follows:

(a) To pack and market the produce of its members in such manner as to obtain the best results possible.

(b) To purchase supplies required in the production and marketing of such produce, such as fertilizers, seeds, spray materials, boxes, paper, sacks, etc., to the best possible advantage.

(c) To handle such other supplies and to establish such plants for the manufacture of by-products, in conformity with the Act, as the members may from time to time determine.

"The By-laws and Regulations have been amended and revised to conform with the Co-operative Associations Act 1920, under which Act the Exchange now operates.

"Membership

"Any person over the age of sixteen years may be admitted to membership, provided that he or she is a resident of the Shuswap Lake Valley, a producer of fruit or vegetable products, and a subscriber of not less than one share of the capital stock, and who executes an agreement covering the sale of all fruit and vegetable products produced by him or her through the Association. Application



for membership shall be made in writing to the directors, who may refuse or postpone it.

"The business of the Exchange is managed by a Board of Directors who may delegate any of their powers to an Executive Committee of three, President, Vice-President, and Secretary to the Board.

"Three directors are elected annually and hold office for two years.

"Manager and Secretary-Treasurer appointed by the Board.

"Accounts are audited annually by chartered accountants and financial statements completed in conformity with the Co-operative Associations Act 1920.

"Reasons for Incorporation

"Records are somewhat incomplete, but reading from minutes of meetings held prior to organization, it would appear that there was general dissatisfaction among fruit growers, both as to prices received for their produce and cost of supplies.

"Marketing was done by individual growers and one grower was pitted against another to break down prices. All supplies were purchased at retail prices plus l.c.l. freight.

"Collective bargaining power through cooperation was essential for the economic welfare of the farmers of the community. Apparently no individual or privately owned business was able to give the necessary service.

"The earliest record of the operations of the Exchange is a report in the minutes of the sixth annual general meeting, wherein the directors report that as a result of their operations they were able to report a saving to the members of \$4,801.63 on a turnover of \$71,000.00 of produce and supplies.



"During the years 1907 to 1920 the produce handled showed a steady increase. Records reveal that surplus earnings were relatively small as margins taken in supplies and handling charges on fruit were kept as low as possible.

"Reference to the Balance Sheet of 1920 shows fruit and supplies handled to the value of \$341,911.25.

"The authorized capital stock in 1920 was \$50,000.

|                    |             |
|--------------------|-------------|
| Subscribed capital | \$18,690.00 |
| Paid up capital    | 9,412.00    |

It was necessary to borrow considerable money from the bank up to \$20,000 to carry on current business. Bank interest at that time was 8 per cent per annum.

"To increase working capital, and decrease bank loans, a resolution was passed authorizing a deduction of 3-3/4 per cent on fruit sales. Growers were given notes redeemable in four years bearing 4 per cent interest. It could be possible that this action had something to do with a gradual decline in bank interest rates to the present comparatively reasonable level of 4-1/2 per cent per annum.

"Up to this time most of the fruit was packed by the growers on their farms and assembled and loaded at the Exchange warehouse.

"To standardize the grade and pack which became necessary to insure a favourable market, arrangements were made to have fruit packed centrally under capable supervision. In 1921 the Manager's report states that apples were packed and handled for eight cents per box less than by independently owned packing houses in the Okanagan.





"In 1922 the Salmon Arm Farmers' Exchange, in common with all shipping houses, felt the strain of a large crop coupled with lack of cooperation between Okanagan shippers. After making plans to form a Shippers' organization to exercise control over marketing and distribution the situation got out of control and is best expressed by a quotation from the annual report for that year:-

'Unfortunately our plans miscarried as a general scramble ensued on the part of a large number of growers to market their own product. Independent shippers followed and organized shippers had no alternative but to fall into line and help to "bust the market". The ridiculous returns you have received relate what happened.'

"Prices were as low as 10 cents per box.

"Conditions such as these led to the formation of the Associated Growers of B. C. Ltd. These are the same conditions, in a local sense, that led to the formation of the Salmon Arm Farmers' Exchange.

"Records of our operations are on file with the provincial government and we feel it is not necessary to refer to the years between 1921 and 1940.

"With the gradual expansion of business some changes became necessary. The scope of operations of the feed store had changed and a great many farmers conducting dairying and mixed farming became patrons of the feed store. By resolution these were now admitted to a store membership. Instead of transferring any surplus from this operation to the general operating account where it found its way into rebates to fruit growers, a change was made. To compensate the fruit growers for their





investment, 25 per cent of the net surplus is transferred to general operating account and 75 per cent are returned to store patrons in proportion to their purchases.

"In August 1944 the members of the Exchange faced a serious box shortage. Private enterprise had failed to fill its contracts, partly through labour shortage, partly because of more profitable utilization of materials in other ways. Whatever the reason, the fruit growers had no boxes, so this Exchange had to buy a box factory.

"After thirty seven years of operation the Salmon Arm Farmers' Exchange has

|     |                       |
|-----|-----------------------|
| 271 | shareholders          |
| 207 | active fruit shippers |
| 104 | store members.        |

It has a paid up capital stock of \$50,268.08. This capital is revolving. Each year a deduction of 3 cents per box is made on apples, pears and crabapples, and 1-1/2 cents per package on soft fruits. Shares are issued for the funds derived and an equal amount of previously issued shares are redeemed. Savings in packing and handling are returned to growers on the basis of box shipments. Each member is entitled to one vote regardless of share holdings.

"The Salmon Arm Farmers' Exchange is now equipped to --

Pack and ship the fruit and vegetables of its members. Provide cold storage for 100,000 boxes of fruit. Manufacture boxes for the members' fruit. Manufacture lime sulphur spray. Store, grind and clean grain and feeds. Supply flour and feeds, fertilizers, etc.

"The attached balance sheet indicates the extent of the services rendered.

"Our operations are designed to give each member



the reward of his own efforts, which we consider the finest incentive known to individual initiative.

"We welcome this inquiry, and are pleased to cooperate to the best of our ability.

"Respectfully yours,

Salmon Arm Farmers' Exchange

J. C. Hanna                      President

J. E. Pike                      Treasurer."

.....

BY MR. PARKER:

Q. I have only a very few questions, Mr. Pike. Towards the bottom of page one of the brief you say:

"..... a producer of fruit or vegetable products, and a subscriber of not less than one share of the capital stock, and who executes an agreement covering the sale of all fruit and vegetable products produced by him or her through the association." Have you a copy of the agreement?

A. Yes.

Q. May I see it?    A. Yes.

Q. Look at the agreement, Mr. Pike. It reads: "That in consideration of the Exchange" -- that is to say, the company?    A. Yes.

Q. "In consideration of the Exchange supplying the grower with boxes, crates, fertilizers, etc." What do you mean by "supplying"? Do you sell them boxes and crates?    A. No.

Q. On what terms do you supply them?    A. The fruit is delivered less any boxes we supply.

Q. Do you loan them to these people or do you give them? They always remain the company's?    A. They always remain the property of the Exchange.



Q. Just as one might lend a basket to a friend to carry something home? A. Yes.

Q. That is what you mean by supplying boxes, crates, fertilizers and so on? A. Yes.

Q. The agreement goes on: "...the grower hereby agrees to deliver to and market through the said Exchange ....". In other words, you interpret that to mean that it is merely an agency. You are selling his fruit. A. Yes.

Q. There is not a sale from him to you?  
A. No.

Q. I quote from the agreement: "(2) The Grower, if not already a member of the Exchange, will become a member thereof and on the execution of these presents by the Grower and by the Exchange the Grower shall be deemed for all purposes to have become a member of the Exchange, and will at all times observe and comply with all the rules and regulations of the Exchange, as they may from time to time be promulgated or amended." All he has to do to become a member is to grow and sell fruit through you?  
A. Yes, but it is stated that he must subscribe to one share of capital stock. That was in accordance with the by-laws at that time. At the present time if he signs a contract to ship fruit through the Exchange the box deduction on that fruit gives him shares of the company.

Q. A new man coming along now and signing an agreement does not have to buy a share? A. No. But he has to ship his produce through us.

Q. And having signed this, that is all he needs to do? A. Yes.

Q. Therefore you have shareholders who have got in under two conditions: one who has an agreement plus shares, and one who has an agreement without shares?





A. That is not so, now, because all the original shares have been bought in. There are no shares outstanding prior to 1936.

Q. You have no shares at all? A. Yes, fifty thousand.

Q. Have you some members who have no shares?

A. Only from the time they sign the contract until they deliver the fruit.

Q. Even today you have some members who own shares and some who do not? A. Yes.

Q. But those who do not have shares today will acquire them? A. Yes.

Q. By being more or less obliged to apply their refundable portion towards the payment of shares? A. Yes.

Q. It is rather an effective way of inducing members to become shareholders? A. It is the way they themselves have decided to carry on their business.

Q. Those who have not yet joined did not make that decision? A. Quite so, but there is no obligation for them to join.

Q. At any rate, that is the agreement? A. Yes.

Q. Is there any document that sets forth the basis on which he will get his refund on the sale of his fruit? A. There is nothing in the contract; it would be by the rules of the association.

Q. And he agrees to abide by the rules? A. Yes.

Q. Will you look at the bottom of page two of the brief. It says there: "The earliest record of the operation of the Exchange is a report in the minutes of the sixth annual general meeting, wherein the Directors report that as a result of their operations they were able to report a saving to the members of \$4,891.63 on a turnover of \$71,000.00 of



produce and supplies", do you mean that is the amount returnable after paying expenses? A. Yes.

Q. Can you tell me if, as and when it was ever actually paid, that \$4,000 odd? A. I would have to rely on my memory, but from the minutes of the annual meeting, from which this was taken, I think there was a resolution passed that they be turned into working capital and held as a reserve for working capital.

Q. So far as you have knowledge now, it is retained? A. I could not say.

Q. But you have no knowledge of its ever having been segregated from general working capital and paid out as savings of that particular year? A. I have no knowledge.

Q. You go on to say in your brief: "During the years 1907 to 1920 the produce handled showed a steady increase." Can you tell me if at any time during that period savings so called were paid back to the members, or was it all put to reserve and held? A. I have no evidence here to support my statements but I have seen it in the minutes and in the annual statements that there were rebates. I have seen at different times rebates of from one to four cents per bod.

Q. What I am getting at is this: Was it a practice? A. It was the practice at the end of each year to have the membership decide what would be done with any surplus.

Q. But what was that decision, and what action was taken on it? Was it the decision that it would be paid back and was it paid back, or was it the decision to place it on reserve and was it so placed? A. There were years when it was paid back.

Q. And years when it was not? A. Yes.

Q. No uniformity about it? A. The action was in direct proportion to the needs of the association.



Q. If they were short of working capital they put it to reserve? A. If the members decided.

Q. Was it the members or the directors? A. The members.

Q. In their annual meeting? A. Yes.

Q. At any rate, according to your statement attached to the brief, this company today has very substantial assets. A. Yes.

Q. Amounting to what -- over \$200,000? A. Yes.

Q. And that is made up of various buildings and a lot of leasehold property, some very heavy property, inventories and supplies. Your inventories and supplies of materials -- that is goods which your company goes out and purchases? A. Some of that, if you like. Some of it consists of goods for the store operations. A good deal consists of boxes, crates and material for the stores.

Q. Your association goes and buys boxes or manufacturers them and the rest of the things that make up that amount, and those are assets which the company bought and paid for out of reserves, out of the working capital? A. Yes.

Q. The crates which are supplies are still the company's crates. They are not sold. Is that right? Perhaps the statement speaks for itself. During the course of the years, out of these reserves the company now has over \$200,000 in physical assets, cash and so forth, as set out in the statement; and I notice in that statement you include in the profit and loss account a balance for 1943 of \$4,167.68. Does that represent profits of the company for that year? A. No. That is a continuing account. It is the balance as at April 1st.

Q. That is after the profits for this particular





year are added to what it may have been before? A. The total is \$4,183 which would be carried forward the next year. It does not represent profit in any one year.

Q. The profit for the year was \$1,700 odd?

A. Yes.

Q. Which, added to the previous profits of \$2,390 gives \$4,183? A. Yes.

Q. For the year in question with which this report deals the company made a profit of \$1,792.52? A. That is the statement.

Q. It is audited by a chartered accountant and certified correct? A. Yes.

Q. Is it correct? A. It certainly is. There is nothing else I can say.

Q. I know your difficulty. It is true it is called profits there and you may say that is a misnomer; but will you tell us what you think about it. Is it the correct word to describe this company's business?

A. The report is completed in accordance with the Co-operative Association's Act and the Act calls it profit.

Q. Whether it was the correct term, it was the one which the Act used, and your statement followed that terminology? A. We are not concerned with the terminology. All we are concerned with is where that fund, surplus or profit goes to.

Q. The fact that you call it a profit does not change the nature of it? A. No.

Q. This company, in addition to the money it gets from the membership, has made some capital borrowings. Perhaps that is not the right word, but it has a bond issue on its property? A. Yes.

Q. Thirty-five thousand dollars? A. Yes.





Q. I suppose the company executed a trust deed in the usual form to secure the bonds? A. Yes. They first had to have a general meeting of shareholders and pass an extraordinary resolution.

Q. I would expect that; but they did not sign the mortgage, neither individually nor by a committee of them. Did the company sign a mortgage? A. Yes.

Q. What rate of interest is charged -- 5-1/2 per cent? A. Yes.

Q. When were they issued? A. 1939.

Q. How long a term? A. Ten years.

Q. And the money to pay the bond interest is taken out of the proceeds of the sale of members' fruit? A. It is operating expense.

Q. Perhaps you can tell the Commission just what the difference is in form or in substance between the bond issue you put out in your company and the bond issue any ordinary limited company would put out secured by mortgage on its physical assets? Can you tell us what the difference is either in form or in substance? Some of the Commissioners would like to get a clear idea of the distinction.

A. I don't think I am qualified to answer that question.

I understand the form of our debentures but I have never had anything to do with the issuing of debentures by a private corporation.

Q. It was left to your legal advisors to get out the necessary documents? A. Yes.

Q. It is refreshing to put the burden where it belongs. Those are all the questions I have to ask you.

BY MR. FRANCIS:

Q. Just one question. Do you know, Mr. Pike, whether in your area, the area in which you live and carry



on business any other fruit cooperatives have been formed that have subsequently failed and gone out of business?

A. Not any.

Q. To your knowledge, nowhere in the province?

A. Well, I don't know whether you can call it direct knowledge but I have heard members of our organization talk about it and I have heard it discussed at our annual meetings.

Q. I thought personal knowledge? My instructions are that a number of fruit cooperatives found it difficult to make ends meet and failed. A. I have never heard that, and I have talked about it several times.

Q. Do you think that is the case? A. No.

BY MR. VAUGHAN:

Q. In the balance sheet, on the assets side there is an item of \$108,000 while on the other side there is an item of reserves totalling \$76,000. On what basis are these reserves built up against the property? A. You are bringing up a subject in regard to which I can speak officially concerning only the latter part -- \$20,240.30, the latter part of that reserve.

Q. How old are the buildings? A. Some are thirty-seven years old.

Q. Which is the thirty-seven-year old one?

A. You could not distinctly say because the main house has its face lifted and transformed. A part of it is thirty-seven years old.

Q. What about the \$65,000, cold storage? A. Part of that was constructed in 1939 and part in 1926.

Q. And the amount written off is \$20,000. Does that seem to be an unusually quick rate of depreciation for a cold storage? How long do they usually last?



A. I think they last longer than that. As regards that \$20,000, part of that is actually not a building fund reserve. Part of the money included in the \$20,000 represents an attempt to amortize the total payments over a ten-year period. For instance, we tried to make the amount that will be taken from the gross over ten years exactly alike so that there is more in there that will be added to that in the next five years.

Q. The term you have given that cold storage is ten years? A. The term of repaying the debentures.

Q. Debentures are on both those plants? A. Yes.

Q. And it is all written off in ten years and there is a reserve set up to meet that? Isn't that for a far greater rate than ten years? When was the cold storage built? A. In 1939.

THE CHAIRMAN: It is evident that we cannot finish today.

MR. PARKER: Mr. Francis has two more briefs on the file and he tells me that he merely wishes to present them formally. He will not even read them and he has no evidence to support them.

MR. FRANCIS: Just to finish the cooperative list, I will take but one moment. The Nanaimo Creamery Association is a creamery owned by producers. Mr. W. A. Wilkinson was to present the brief but he is ill. That deals with the milk trade and Mr. Farris was appearing for the private trade there. I have advised him that I will file his brief and I have furnished him with a copy because he is interested in that particular industry. If there is any information required from Mr. Wilkinson it will be given when he recovers.

Then there is the Armstrong Co-operative Association.





That is a consumer cooperative general store. We thought the Commission would like to have a representative general store. It is similar in some respects to the Surrey and the brief is filed. It was to be presented by Mr. Woods but owing to labour shortage he could not come to the coast.

There have come to the Commission three very short briefs that help to round out the picture and they have been sent in under the auspices of the cooperative union. They are rather unique and they will also help in rounding out the picture. There is one from the Saanich Fruit Growers Association and the Saanich Bulb Growers Association. That is an organization to market bulbs grown by members on the south end of Vancouver Island. That consists of one page signed by J. H. Thompson, President. The Saanich Fruit Growers Association brief is signed by H. C. Oldfield, President. That deals with fresh fruits from the Saanich Peninsula. That is all we have.

With regard to arguments, I would like to make a brief statement, Mr. Chairman. It so happens that I have been retained to represent cooperatives in six of the nine provinces and with the Commission's permission I would like to reserve argument for two reasons; first, to save the Commission's time so that there will not be any duplication, and secondly, to give greater assistance by having more time for study and consideration. Simply because I do not submit arguments here, however, I do not wish to have it assumed that I agree with everything that Mr. Farris and some of the others have said.

May I say, Mr. Chairman and gentlemen of the Commission, that this is the last submission that is being made by a cooperative which I represent in this province,



and to the many witnesses who have been called to give evidence it has been a new experience. They were not quite sure what was ahead of them when they came here, and I am specifically instructed, through their Union, to thank you, sir, and the other Commissioners for the courteous way in which these various witnesses have been received by you. I make that statement on specific instructions.

The Commission adjourned to meet again on Tuesday, January 18, at 10 a. m.

.....

Thursday,  
January 18, 1945.

The Commission met at 10 a. m.

MR. PARKER: Mr. Chairman, we have on file a number of briefs that remain to be dealt with and I do not know that there is any particular order in which they should be taken up. Perhaps I should call them and get them disposed of as quickly as possible. I have one from the Kamloops Board of Trade in the form of a letter. I understand that word has come that no one intends to appear in support of it. I think it should be noted on the record that the case was called and no one appeared to support it.

THE CHAIRMAN: Will the Registrar formally call the Kamloops Board of Trade.

THE REGISTRAR: Is anyone appearing for the Kamloops Board of Trade?

THE CHAIRMAN: Enter default. I understand you to say there is a letter.

MR. PARKER: The brief is in the form of a letter stating their views generally on the matter.

THE CHAIRMAN: It will be noted that the brief was



submitted, no one appearing.

MR. PARKER: We have also a letter from the Retail Merchants Association of Canada, signed by the Secretary. It also is in the shape of a letter and I understand that there is no one present to support it. Perhaps it can be dealt with in the same way.

THE CHAIRMAN: No brief submitted?

MR. PARKER: No; it is just a letter. That is correct, is it not, Mr. Registrar?

THE REGISTRAR: Yes.

THE CHAIRMAN: That will be entered in the record the same as the other.

MR. PARKER: Then there is one filed recently from the Vancouver Board of Trade.

THE REGISTRAR: I have a received a letter this morning from the Vancouver Board of Trade to the effect that they are not appearing but wish to have their memorandum submitted to the Commission indicating their opinion.

THE CHAIRMAN: Memorandum submitted, but no appearance.

MR. PARKER: I understand that Mrs. Steeves wishes to present a brief on behalf of the Co-operative Commonwealth Federation, British Columbia section. Perhaps we can take that up now.

MRS. D. G. STEEVES,

Co-operative Commonwealth Federation,  
British Columbia Section,  
having been duly sworn testified  
as follows:

BY THE CHAIRMAN:

Q. Are you offering evidence, Mrs. Steeves?

A. I am offering a brief from my organization.

Q. But you are not bringing witnesses? A. No.





Q. Is the brief an argument, or does it contain facts? A. It contains facts but it is also an argument.

BY MR. PARKER:

Q. Before you proceed to read your brief, perhaps you will state on whose behalf you are appearing. A. I am appearing on behalf of the C.C.F. -- that is, the Co-operative Commonwealth Federation -- British Columbia section.

Q. Is that an organized corporate body? A. No. It is a political party. It is not organized as a corporate body.

Q. Does this brief which you are about to read purport to be the considered views of the group on whose behalf you appear? A. Yes.

Q. Or is your own views? A. No. It is the considered views of the British Columbia section of the C.C.F.

Q. Has the brief which you are about to read been submitted to any committee of the group for approval?

A. Yes.

Q. Speaking generally, how was it prepared? Is it the joint product of the Legislative Committee or some similar committee? A. It was prepared by myself in accordance with arguments prepared by research committees of our organization.

Q. And you are putting it forward as representing the considered views of the British Columbia section of the party? A. Yes. In fact, it represents the considered views of the National Party, though I am speaking on behalf of the British Columbia Section.

THE CHAIRMAN: Was it solicited by anyone?

THE WITNESS: No, not at all. It reads as follows:





"The CCF (B. C. Section) is of the opinion that the present exemptions from income tax and excess profits tax, enjoyed by cooperatives, should be continued.

"The facts and figures in regard to the co-operative and credit union movement of British Columbia will, no doubt, be fully outlined by the representatives of these organizations. In substantiation of our opinion, we have, therefore, confined ourselves to certain general principles underlying the cooperative movement and the reasons why it is neither equitable nor socially desirable that the present taxation on cooperatives in Canada should be further extended.

"The growth of the cooperative movement, which is world-wide, has been based on a belief that humanity is evolving towards a society in which service is the motive of production and distribution. This belief has expressed itself in the formation of voluntary associations of producers and consumers, called cooperative societies. In a cooperative society people organize democratically to supply their needs through mutual action, and the motive of production and distribution is service, not profit.

"The three guiding principles which have been recognized in every statute governing cooperatives and credit unions, draw a clear distinction between cooperatives and profit-making corporations.

"They are:



1. Democratic control. Each member, regardless of the shares he owns, shall have one vote.
2. Capital, invested in the society, shall receive a fixed interest, which shall be no more than the minimum prevailing rate.
3. If a surplus accrues from the difference between the net cost and the price received for commodities and services, after meeting expenses, paying interest on indebtedness and setting aside reserve and other funds, the surplus savings shall be returned to the patrons as savings -- returns or 'patronage-dividends', in proportion to their patronage."

If I may add this, I was surprised to hear, either yesterday or the day before, that Counsel for the Independent Milk Dealers actually proposed that we should go further than we propose and that legislation should be passed to force cooperatives, or rather to make it possible, to set aside some sum of money which should be deemed to be profits and that this should be taxed. I think that is one of the greatest proposals for the taxation of freedom and free enterprise that I have yet heard. That is my opinion, it is not part of the brief.

Taxation is a method of redistributing income, and it is our contention that there is no better method of distributing income than to give people the opportunity, through their own self-help undertakings, to get what benefit they can from their own productive and distributive enterprise. Cooperatives are one of the greatest techniques for the just distribution of income and therefore they diminish the need for taxation. Continuing:



"The surplus over expense shown by cooperatives is therefore not a profit, but is returned to the members in proportion to their patronage or reinvested in the cooperative enterprise. The member does not get a "dividend" in the ordinary commercial sense but a deferred rebate on his purchases from or sales to the cooperatives. If the money is reinvested, the surplus becomes part of the members' capital, and any earnings from it are again distributed as deferred rebates.

"It has been pointed out by some that cooperatives can do business with persons other than their own members and that it is theoretically possible that they might do more business with non-members than with members and so be engaged mainly in a profit-making undertaking. As it is cooperative policy to buy and sell at the market price, there is little inducement for non-members to do anything more than casual trading with cooperative establishments. The likelihood of trading with a large number of non-members is very small. In any event, the Income Tax Act specifically provides that if business with non-members exceeds 20 per cent of total business, the whole of the surplus earnings shall be taxed on exactly the same basis as in the case of private companies.

"The one man - one vote principle of democratic control must be noted as providing a valuable method of decentralization of power and a means of placing the administration of the economic life of the nation in the hands of the people themselves. There is a sharp revulsion today from too much control at the top, either by governments or by economic monopolies. Under the present system a small group of people directing business corporations may enjoy tremendous voting power and actual control, while a large mass of unorganized and small shareholders have little or no share





in the operations or policies of business. Moreover, as numerous investigations and government reports, both in Canada and the United States have proved, business has combined into monopolies and international cartels and by the means of interlocking directorates and other manoeuvres a small and powerful group gains control of finance and the essential industries, distributes the profits among its own members, directs national economic policies and even influences governments for its own ends. Such activity is anti-social. The organization of a powerful cooperative movement, directed from the bottom up, and not from the top down, is one of the means whereby such economic dictatorship can be prevented. In business corporations, money votes. In cooperatives and credit unions, people vote on the basis of membership instead of the size of their investment.

"It should be noted that one of the rules of cooperatives is that there shall be no proxy voting. Where proxy voting is permitted by the law governing cooperatives, it is contrary to good cooperative principle and such law may be changed.

"A further indication of the social aspect of the cooperative movement is its educational activity. The Nova Scotia Credit Union movement has probably done more in this regard than any similar movement in Canada. It must be admitted that Canadian cooperatives and credit unions have been very backward in the matter of education in comparison with certain European countries, notably in Denmark, where the Folk Schools, run by the cooperative movement, have given an example to the whole world in the field of adult education. Nevertheless, in all fairness, it should be remembered that the Canadian cooperative



movement is considerably less developed than its European counterpart. Many cooperatives in British Columbia and particularly the Credit Unions, do good educational work and live up to the cooperative rule that a certain part of the surplus should be set aside for educational purposes. That this rule is traditional in the cooperative movement is due to the fact, which cannot be sufficiently emphasized, that the movement is not merely organized as an economic convenience, but that it has a distinct social purpose towards a reconstructed form of society.

"Some comparisons with Britain, the United States and  
other countries

"One of the chief arguments used by those who wish to have the surpluses of cooperatives taxed is the allegation that in Britain cooperatives bear a share of the tax burden similar to that of other forms of enterprise. This is technically true. A national government, looking around for new sources of taxation during the depression period, amended the law exempting cooperatives, after lengthy investigations into the subject.

"However, in Britain only undistributed surpluses are taxed. Dividends, whether of ordinary corporations, or of cooperatives are not taxed, save as part of the individual taxpayer's income. Patronage dividends are not taxed at all. The Income Tax Payers' Association of Canada, which is propagandizing for the payment of taxes on the surpluses of cooperatives, does propose the taxation of patronage dividends. In a published address delivered by the secretary of this association to the annual meeting of the Retail Merchants' Association of Saskatchewan on May 25, 1944, the following significant statement was made: "It should be mentioned at this point that if in Canada,



cooperatives and mutual concerns are to be taxed to the same extent and in all respects as ordinary commercial companies or corporations then it will be necessary not only to repeal the exemptions contained in the existing law, but to provide for the taxation of patronage dividends by express enactment if it be found that they do not come within the scope of the present act."

"Should the Canadian government accede to such a demand, Canada would go much further in the matter of taxing the cooperatives than the majority of countries where the cooperative movement functions and where it is recognized that patronage dividends cannot legally be construed as profits. In most European countries there has been restricted taxation of cooperatives, but mostly on the margin of business done with non-members. There has been little, if any, taxation of patronage dividends.

"It should be noted that there is little accurate information available about the condition and the taxation of European cooperatives since the Nazi occupation of Europe. In accordance with their theory that democratic institutions should be destroyed, the Nazis destroyed the cooperatives, or brought them under complete government control in many countries, although not in all. The cooperative movement in Europe was so strong and had so many members that it had to be kept in Denmark, Belgium and Holland and to a limited extent in France.

"Before the war, there were 575,000 cooperatives in Europe and over one hundred and eleven and a half million members of these organizations. We quote these figures to show that in power and in size the cooperative movement in Canada is not yet comparable. In the chief cooperative countries in Europe, particularly in Britain and the





Scandinavian countries, the cooperatives were able to establish themselves strongly before the advent of the great business corporations and department stores. They showed their stability and power particularly during the depression period, when they did much better than private business. Germany was an exception to this, because a desperate government subjected them to heavy taxation during the depression and reduced the benefits given to members, thus accelerating the bad effects of the depression.

"In contrast to Canada, the cooperative percentage of retail trade in Europe was very large. For instance, in Finland 30 to 40 per cent of the retail trade was done by cooperatives, in Bulgaria 25 per cent and in Estonia 24 per cent. In many countries, the central business organization of the consumers' cooperative was the most important commercial enterprise in the country. Important industries were owned and operated by the cooperatives, which were able to offer effective competition to the monopolies.

"In Britain nine million people belong to consumers' cooperatives. In comparison the consumers' movement, which is the most important section of the cooperative movement, is in its infancy in Canada. The Canada Yearbook of 1943-44 states that "The history of consumers' cooperation in Canada is not encouraging". The existence of chain stores department stores and mail order businesses make it difficult to build up the consumers' cooperative stores in Canada. In view of the fact of the great benefits which have accrued to the British and other European peoples from cooperative stores, it would seem that it is the business of governments in Canada to encourage them, rather than lay obstacles in their way.





"In view of the fact that business conditions in Canada approximate more closely to those of the United States than of Europe, some observations regarding experience in that country may be of interest.

"In the United States under the Capper-Volstead Act, farm cooperatives organized to buy supplies and to sell goods are exempted from taxation, if they meet the following requirements:

1. They must be organized as true cooperatives.
2. All capital stock with voting power must be held by producer patrons.
3. Not more than one half of the business may be done with non-members.
4. Non-members must be dealt with on the same basis as members.
5. Dividends on stock must be limited to eight per cent or the legal rate in the state.
6. Reserves may be accumulated in reasonable amounts.

"City cooperatives pay taxes on whatever profits go into reserves or are used for extension. Patronage dividends are tax free. Recently the Commissioner for Internal Revenue had sought to collect taxes on patronage dividends, but in 1944 the Tax Court at Washington upheld the rights of cooperatives to deduct patronage dividends from gross income before estimating the income tax.

"The situation in regard to state taxation of cooperatives in the United States is varied. The tendency is under state income tax laws to exempt distributive farmers' associations and to have cooperatives which are liable for taxation pay mostly on money distributed in interest on share capital or laid aside for reserves. Wisconsin



exempts all cooperatives from taxation. In North Dakota amounts set aside for reserves are exempt if the cooperative distributes on its books to the credit of its members individually a certain percentage of net income and uses these amounts as working capital. It is held that these sums benefit patrons as effectively as if they were paid in cash.

"An interesting study made by the United States Bureau of Labor Statistics indicates that the taxes (for all purposes) paid by cooperative retail associations were 3.08 per cent of food sales, 2.17 per cent of general sales and 2.24 per cent of oil sales (1940). This was a larger percentage than that paid by the privately owned retail associations of a similar nature. It was pointed out that the difference was due largely to the fact that the labour force was better paid in the cooperative stores and that the cooperatives paid more on account of social security taxes, which accounted for more than one third of taxes paid. One of the rules of cooperatives is that labour should be well paid. In the cooperatives all labour is paid labour, whereas among private independent dealers many stores were of the one man owner type.

"If Canada adopted social security legislation, this fact would have application here.

"The United States Bureau of Internal Revenue has recognized two ways of treating the somewhat detestable point of non-member refunds. The most common method is to automatically credit the patronage refund of the non-members towards the purchase price of a share in the association. The second is the creation of a separate fund for non-member discounts, in which separate accounts are not maintained, but a non-member can obtain a refund in



the form of a share on the basis of proved purchases. These methods meet the objections of those who claim that cooperatives should do business only with members.

"What would be the results of extending taxation on cooperatives?"

1. It would give a serious setback to the cooperative movement in Canada, at a time when our greatest necessity is to build up democratic institutions and enable people to reestablish themselves after the war by means of self-help.

2. Our governments would be guilty of an economic fallacy, because they would be taxing not profits, but savings distributed on a patronage basis.

3. It would entail much economic instability and confusion, because if such tax laws were passed, cooperatives would drop their long time policy of charging current market prices or maintaining competitive prices and would simply slash prices. Already the wheat pools have given evidence that such is their intention. Other cooperatives would follow suit, because they are not interested in making profits, but in giving the best possible service to their members. Such a policy would not be a good thing for business in general.

4. Cooperatives would be penalized for their efficiency and prudence in supplying the needs of their members at cost.

5. Communities would be penalized, because the savings of the cooperatives come back to the local community in contrast to the profits of big business, which often go outside the community and the country. Local communities are often milked in order to build big cartels.





6. Cooperatives for the purpose of giving service, such as telephone service, hospital and health services, burial cooperatives and housing cooperatives would be seriously hampered.

"There are many and various types of these cooperatives in Canada. Hospital and health group insurance schemes actually save the government money. There will be no end to it if Canada begins to slip down the slope of taxing cooperatives and the logic of such action will force the taxation of the service cooperatives.

"Cooperative housing is a new enterprise in Canada. There are seven cooperative housing communities in Nova Scotia, financed by the Provincial Housing Commission. There are other cooperative housing projects in Alberta and in Quebec, now in operation. Many communities in Canada have cooperative housing projects in mind for the end of the war. These projects will operate largely in the field of low cost housing. The Housing and Community Planning Subcommittee of the federal government's committee on reconstruction published an authoritative report, in which it was stated that the dominion government would have to make subsidies to permit rents to be set at lower than the "economic" level, because of the large number of people who were not able to pay an "economic" rent. Cooperative housing is one of the means to help people overcome this difficulty by their own effort. The government would be in the absurd position of hindering the housing cooperatives, if it taxed them. In this connection we would mention the cooperative residence system, as recently developed in Vancouver, which is providing good boarding houses for university students and single women at cost, under cooperative associations. Would it not be the height



of foolishness to tax such associations, instead of encouraging them to give better service and to cut the cost of housing these people?

7. Taxing the cooperatives might have a tendency to increase government costs for relief, social services and health. It is better to encourage people to organize and help themselves than to ask for charity.

8. It would cut down the educational activity of the cooperatives and credit unions, which is a valuable aid to the creation of better citizenship and which should be extended.

#### "Cooperatives and Post-war planning

"Governments and international organizations are recognizing the value of cooperatives in planning for post-war reconstruction. The Post-War Rehabilitation Council of British Columbia was in receipt of a number of briefs from all over this province directing attention to the advisability of encouraging cooperatives. In its report the council included among its recommendations that in the settlement of returned men upon land, communities should be cooperatively organized as far as possible, and that the organization of workers' cooperatives in small scale industries in the urban district should be encouraged. Under such a plan it was suggested that members should have a joint labour co-partnership under which they would pool their savings as capital at a fixed rate of interest, pay at least trade union rates of wages and divide the net operating surplus in proportion to the earnings of each. It is clear that there would be no profit in such cooperatives but the members would simply earn what they worked for and should be taxed as private individuals.

"Moreover, the cooperative movement should be given every encouragement from the point of view of international



reestablishment. This was recognized by the United Nations Conference on food and agriculture held at Hot Springs, Virginia, in 1943, at which a resolution was passed stating that the cooperative movement had played a vital part in the training of good democratic citizens and had been of great importance both to rural and urban populations and it was recommended that all countries should aid the establishment of producer and consumer cooperatives and that each nation should examine its laws, regulations and institutions to determine if legal or institutional obstacles to cooperative development existed.

"It is interesting to note that the International Cooperative Union is as yet the only non-governmental organization which has recognized its international responsibilities for the rehabilitation of the world. It has set up an International Freedom Fund for the purpose of rebuilding the cooperatives of Europe, to help rebuild their premises and inventories and to train personnel. Hitler, at the instigation of the big business elements which built up the Nazi power, destroyed the cooperatives. We suggest that Canadians on the home front will be helping to win the war for democracy by assisting and encouraging the cooperatives.

"Cooperative law needs to be improved in Canada."

"We hold no brief for organizations which are slipping through the loopholes of cooperative law and masquerading as false cooperatives. To prevent this situation, we suggest that there are many ways of improving cooperative acts and strengthening public supervision over the operation of cooperatives. The present British Columbia Act was passed in 1920 and has not been amended since then. It is in great need of a thorough revision, as many of its clauses do not comply with modern needs. Unlike other Canadian





cooperative acts, it makes no provision for a government department to supervise cooperatives or other than very perfunctory supervision by the Registrar of Companies. It allows proxy voting, which is contrary to cooperative principle. The limit on the rate of interest on share capital is set too high for modern standards, eight per cent. We would like to see interest payments on share capital discouraged in favour of the payment of patronage dividends. In contrast to the Cooperative Act, the British Columbia Credit Union Act is satisfactory.

"We believe that the federal government should recommend to the provinces that they thoroughly review all their cooperative legislation and practice and that investigations of the condition of cooperatives in the provinces should be held to determine which are true cooperatives and which are merely joint stock companies in disguise.

"There is no Dominion Cooperative Act or Credit Union Act. We believe that such legislation should be on the statute books. At present cooperatives which wish to function under the dominion government have to incorporate under the Companies Act, which is highly undesirable. Moreover, in areas which are not organized, such as the Yukon and Northwest Territories, there is no legislation to cover the formation of cooperatives and credit unions. This situation should be rectified.

"Finally, we are of the opinion that the Canadian tax structure is highly involved and confused and that what is needed is not to bring non-profit organizations, such as the cooperatives under income tax regulations, but a thorough review and simplification of our whole Canadian tax system, dominion, provincial and municipal.





BY MR. PARKER:

Q. There are one or two questions I should like to ask you, Mrs. Steeves. On page three of the brief you give some statistics. Before the war, you say, there were 575,000 cooperatives in Europe and over one hundred and eleven and a half million members. What is the source of those figures? A. The source is to be found in researches compiled on the basis of the latest knowledge of Europe before the war. They are not Government sources.

Q. Where do you get them from? A. They are sources from research organizations, I have consulted very largely the statistics got out by The International Labour Organization and also by the Labour Departments in the United States and Canada, particularly the Labour Review of the United States Department of Labour, which from time to time gives a great many statistics about cooperatives.

Q. Is there any particular publication you can mention that will give these figures, or is this a compilation by yourself. A. I should have put my references here. I am not sure what references I could name you in regard to this except to say that you will find it in the publications issued by the United States Labour Department.

Q. You will appreciate the difficulty one might have in accepting such figures? It would be easy to make it two hundred and eleven millions, although I am not suggesting that. A. I am not insisting that you accept this from me.

Q. In the next paragraph you make this statement: "In contrast to Canada, the cooperative percentage of retail trade in Europe was very large. For instance, in



Finland 30 to 40 per cent of the retail trade was done by cooperatives, in Bulgaria, 25 per cent, and Estonia 24 per cent." What is your authority for this? A. The same is true of these figures. May I say that in my belief a Commission of this nature, inquiring into cooperatives, should consult these publications and learn about the co-operative movement.

Q. No doubt the Commission will use their best judgement in that respect. A. I simply wished to bring it to their attention.

Q. I am sure they appreciate it. In the last paragraph on page three you say that in Britain nine million people belong to consumer cooperatives. A. I got that from British publications which I could not mention now.

Q. Government publications? A. Government publications.

Q. Can you tell me what they are? A. They are gathered from British Year Book publications.

Q. What year? A. That is for 1942. No doubt there are more today.

Q. Probably. On page four you say: "In the United States, under the Capper-Volstead Act, farm co-operatives, organized to buy supplies and to sell goods are exempted from taxation, if they meet the following requirements: 1. They must be organized cooperatives." What is a true cooperative? A. A true cooperative is, I should say, one the object of which is not to make profits but simply to create savings for its members.

Q. One gentleman spoke of alleged cooperatives. Are there such in this country, alleged cooperatives, those that are not true? A. I would not like to say whether



there are or are not, but according to certain cooperative statutes in this country there may be. There may be loopholes in the statutes whereby organizations could organize as cooperative and yet would not be true cooperatives. It is for that reason that I recommend that the cooperative legislation in this country should be very thoroughly reviewed.

Q. Is it not somewhat of a contradiction in terms to speak of a true cooperative. A cooperative either is or is not a cooperative. Can there be such a thing as a true cooperative? The converse of a true cooperative would be a false cooperative. Can there be such a thing? A. Well, you understand what I mean. I could have said simply cooperatives, but it is to emphasize it that I put in the word "true". It is a matter of terminology, which may be faulty on my part.

Q. But a cooperative must have certain characteristics or it would not be a cooperative? A. Yes.

Q. Will you turn to the bottom of page five. This comes home or is very close to it. You say: "There are seven cooperative housing communities in Nova Scotia, financed by the Provincial Housing Commission." What do you mean when you say financed? How are the funds raised, do you know? A. They are loaned to these housing communities by the Provincial Housing Commission.

Q. Where does the money originate? Is it government money? A. Yes. I am not sure whether they have any of their own money in it also, but you will no doubt get all the details of that in Nova Scotia.

Q. Probably. A. At any rate, my point is that there are these housing cooperatives that should be encouraged. They are true cooperatives.





Q. That is what bothers me. You say there are seven cooperative housing communities there. These are bot societies? A. They are projects.

Q. But they are not cooperatives of the type that we have been discussing in which the funds are raised by contributions from the individual? A. Individuals contribute also to the fund.

Q. But society largely puts up the money? A. Sure. There is no objection to putting up money to assist cooperatives.

Q. Would that make it less a true cooperative? A. No. In British Columbia the post-war rehabilitation council recommended strongly that the Government loan money to cooperatives to put them on their feet, and money is being loaned by the British Columbia Government to co-operatives.

Q. It is true, is it not, that cooperatives in this province operate and are enabled to operate only by securing a charter from the Government? A. Yes.

Q. It is also true, is it not, that cooperatives, like other forms of business, could function only on the condition that there is maintained a stable organized Government in the country? A. Yes.

Q. You agree with that? A. Nothing can function unless there is stable Government.

Q. Including cooperatives? A. Yes.

Q. Therefore is it not fair and equitable that such institutions should contribute to the cost of maintaining that stable and organized form of Government? A. They contribute to the stability of the Government by creating stable social conditions and enabling people to get the full benefit of their own efforts and their own labour,



thus making it less necessary for people to ask individuals for contributions towards health relief and things of that kind.

Q. But in addition to that, is it your view that they should also contribute by way of taxation to the maintenance of that stable Government? A. Only by taxation of such things that should justly be taxed. I don't think that the results of their labour and their methods of saving should be taxed, because they are not profits. I quite agree that there should be a tax on real estate and trade licenses and what have you.

BY MR. ARNASON:

Q. At the top of page two, in the first paragraph, you say: "In any event, the Income Tax Act specifically provides that if business with non-members exceeds 20 per cent of total business, the whole of the surplus earnings shall be taxes on exactly the same basis as in the case of private companies." I would suggest that that sentence is not quite complete. Probably what you intended to say was that the Income War Tax Act provides that if business with non-members exceeds 20 per cent of total business done with members --- A. Yes. I thank you for calling that to my attention.

MR. VAUGHAN: I think the Commission is very grateful to Mrs. Steeves for the concise and able way in which she has presented her brief. We can see why she is a representative of her party.

MR. PARKER: We have a brief submitted by A. Browne, of Dolph. Browne Limited, P. S. Sterling, of B. C. Fruit Shippers Ltd. and F. L. Fitzpatrick of McLean & Fitzpatrick Ltd. on behalf of eight or ten companies. The brief will be presented by Mr. Robert Cheyne.



ROBERT CHEYNE, C. A.,

Dolph Browne Limited,  
B. C. Fruit Shippers Ltd.,  
McLean & Fitzpatrick Ltd.,  
having been duly sworn testified  
as follows:

BY MR. PARKER:

Q. You are a chartered accountant? A. Yes.

Q. Residing and practicing where? A. Victoria.

Q. How long have you been a member of the  
Chartered Accountants Association? A. Since 1918.

Q. And you have been in active practice ever  
since? A. Yes, but not in my own practice ever since. I  
have been in active practice for some twenty years.

Q. Have you been auditor for the companies list-  
ed on the second page of your brief? A. Not all of them.

Q. A considerable number of them? A. Yes.

Q. The ones whose names are signed to the brief?  
A. Yes, the Committee.

Q. And some others? A. Yes.

Q. Looking at the people you are representing, I  
notice you have British Columbia Fruit Shippers Ltd. re-  
peated five times. Are these five independent companies?  
A. No. They are different branches.

Q. It is really only one company? A. Yes.

Q. The same applies to Dolph Browne Limited?  
A. Yes.

Q. And the same with Fitzpatrick? A. Yes.

Q. And the Occidental Fruit Company Limited?  
A. Yes.

Q. And Walters Limited? A. Yes.

Q. You listed them to show that they were doing  
business in different centres? A. I did not list them.  
They listed them to show the nature of their operations.





Q. Is this brief which you are about to present your personal ideas on the subject or is it the result of the deliberations of a committee on behalf of all these companies? A. This is not my personal presentation. The committee whose names are here -- Dolph Browne, Sterling and Fitzpatrick -- prepared the brief and submitted it to a meeting of all shippers and they approved it and requested that I present it, knowing that I represent at this hearing a large number of cooperatives.

Q. That is rather interesting, is it not? First, this brief is the product, and represents the considered view, of all these companies, not only the three who sign it but the group listed below? A. Yes.

Q. You have been auditor for three of these companies and others? A. Yes.

Q. And you -- by all of them -- were asked to appear before the Commission and present the brief? A. Yes.

Q. And the reason was because you were also the auditor of non-cooperatives? A. No, in spite of that; not because I was the auditor of non-cooperatives but in spite of it. And I present this brief with the full knowledge of my cooperative clients, who have no objection because there is nothing in the brief which is antagonistic.

Q. I am not suggesting antagonism between interests. I want to assist the Commission so that they can properly appraise the value of the statements made in the brief. They are not your views; you may or may not agree with them? A. That is so.

Q. You are merely the agent to express the views of others. A. Yes. The brief reads as follows:

"We present this brief in order to outline, for





your consideration, our position as fruit and vegetable packers and shippers (limited companies) in the Okanagan Valley, British Columbia, under the present Income Tax and Excess Profits Tax structure.

"Our companies pack and shipp all of the fruit and vegetables raised by over 1,400 growers, amounting to 4,480 carloads in the 1944 season, with a cash value in excess of \$5,376,000.

"Our investment in buildings, cold storage and equipment is over \$700,000 and we provide employment for 785 workers in our packing houses, to which can be added the orchard and field labour, of several thousand workers, in the growing and harvesting season.

"Our dealings with our growers are on the basis of the closest mutual friendship and confidence which has enabled us to assist many in the purchase, final ownership and successful operation of orchard properties.

"Also, we wish to make it clear that our relations with our competitors are entirely satisfactory, all working together for the good of the grower and the industry.

"Also, that all fruit and vegetables grown in the Okanagan Valley (whether controlled by cooperative or independent shippers) are marketed through the one central selling agency, the B. C. Tree Fruits Limited, Kelowna, B. C., who account for same to the shipping houses, and the shipping houses in turn account to their growers.

"We, as limited companies, are in direct competition with the cooperative packers and shippers in this Valley, which cooperatives, up to now, have been exempt from income and excess profits taxes. The regulations governing their operations have enabled their building up large reserves so that they are now in a strong financial position and



in addition they have acquired excellent buildings, cold storages, equipment etc., all built or acquired with tax-exempt money.

"The fruit and vegetable production of this Valley is increasing rapidly, and in 1944 we harvested and packed the largest crop on record.

"In order to handle and pack these increasing crops, new buildings, cold storage, and considerable additional equipment must be built and purchased each year, and while the cooperatives have all of their net income available to meet these needs, we, as limited companies, only have that portion which remains after income and excess profit taxes are paid.

"Our services to our growers must be as efficient and complete as those of our competitors and our returns to our growers must also be as high if we are to retain our clientele and the handling of their fruit and vegetables, which is the foundation of our business.

"Since corporation income tax was increased and the 100 per cent excess profits tax inaugurated it has been impossible to provide, from current net profits, the additional buildings and equipment so urgently needed, and some of the principals of our companies have had to use personal savings to meet this need. They did so in the expectation that the unequal handicap under which they are now operating would be removed as soon as the war terminated.

"However, it is impossible to maintain one's position indefinitely under this handicap and in the past few years eight independent limited companies reorganized into cooperatives.

"Whereas in the year 1936 approximately 60 per



cent of all the fruit grown in the Okanagan Valley was packed and shipped by twenty-six independent shipping concerns (limited companies) the present position is that only fourteen independent fruit shippers (limited companies) are operating in the Valley and are handling 34 per cent of the tonnage.

"Most of these reorganizations have taken place in the last few years, since the incidence of excess profits tax.

"Most of the principals of our companies have spent a lifetime in the fruit industry and the success of their concerns is evidence that they are performing a useful function in the economy of the Okanagan Valley.

"We submit, however, that unless we are able to compete on equal terms with the cooperative organizations we will be forced to reorganize our companies into co-operatives or go out of business.

"We appeal to you for an equitable adjustment of this matter and ask that we, and our growers, be granted equality of taxation with all others operating in a similar capacity in the Okanagan Valley.

"Respectfully submitted,

A. Browne, Dolph Browne Limited

P. S. Sterling, B.C. Fruit Shippers Ltd.

F. L. Fitzpatrick, McLean & Fitzpatrick Ltd.

(Committee)

Representing:

|   |                  |
|---|------------------|
| British Columbia Fruit Shippers Limited | Vernon, B. C.    |
| British Columbia Fruit Shippers Limited | Oyama, B. C.     |
| British Columbia Fruit Shippers Limited | Westbank, B.C.   |
| British Columbia Fruit Shippers Limited | Summerland, B.C. |
| British Columbia Fruit Shippers Limited | Oliver, B. C.    |





|                                  |                       |
|----------------------------------|-----------------------|
| Dolph Browne Limited             | Vernon, B. C.         |
| Dolph Browne Limited             | Armstrong, B. C.      |
| Keremeos Fruits Limited          | Keremeos, B. C.       |
| R.H. Macdonald & Sons Limited    | Vernon, B. C.         |
| McLean & Fitzpatrick Limited     | Kelowna, B. C.        |
| McLean & Fitzpatrick Limited     | Oliver, B. C.         |
| Occidental Fruit Company Limited | Kelowna, B. C.        |
| Occidental Fruit Company Limited | Summerland, B. C.     |
| Okanagan Valley Land Co. Ltd.    | O.K. Centre, B. C.    |
| Unity Fruit Company Limited      | Vernon, B. C.         |
| Walters Limited                  | Summerland, B. C.     |
| Walters Limited                  | Peachland, B. C.      |
| A. T. Howe Orchards Limited      | Vernon, B. C.       " |

.....

BY MR. PARKER:

Q. Is the phraseology in this brief yours?

A. No. I only had it submitted to me at the last moment.

THE CHAIRMAN: Did I understand you to say -- I did not have your brief before me -- that eight independents have reorganized as cooperatives?

THE WITNESS: Eight independents, yes, if I remember correctly.

THE CHAIRMAN: Where does your information as to that come from?

THE WITNESS: I could not tell you, sir. I did not prepare this.

THE CHAIRMAN: Do you know it as a fact, personally?

THE WITNESS: I cannot think of eight in the Okanagan.

BY MR. PARKER:

Q. Can you name any one? A. Yes, the Browne Company in Penticton, which became the Penticton United



Co-operative; the Cascade Company, which became the Cascade Co-operative Association; the Crown Fruit Company, which became the Laurel Co-operative Association.

Q. Is this to your personal knowledge? A. To my personal knowledge. These are all I can just think of.

Q. At what dates? A. All within the past four years.

Q. Do you know the details of these companies? A. Yes. I was auditor for most of them.

Q. Has their business method of operation changed? A. Yes, considerable.

Q. In what way? A. They are now owned by the growers and they were owned by limited liability companies before.

Q. How did you get rid of their previous capital structure? A. They sold their assets to the growers and the growers, by deductions, paid off capital -- completely in some cases.

Q. These would be instances of privately owned companies taken over, purchased by cooperative interests? A. Yes.

Q. Do you know whether these privately owned companies paid income and excess profits tax before? A. At that time they were not subject to excess profits tax.

Q. Well, income tax? A. They paid income tax.

Q. Do they pay it now? A. No.

BY MR. VAUGHAN:

Q. These companies were purchased, the assets were purchased, and the companies paid off. How was the money derived to pay them? A. By crop deductions. They would deduct five, six or seven cents per box of apples



and that money went into the revolving capital fund. I did not mention B. C. Orchards in that list. That must be getting close to the eight.

BY MR. PARKER:

Q. Following up the question put by Commissioner Vaughan, what did the limited companies do? Did they surrender their charter? Was the business wound up? A. I don't think that any of these companies have been finally wound up.

Q. How was the transfer made? How, by means of crop deductions, could the other company be paid off?

A. The original company sold their assets to the cooperative company and as they collected their money from the growers they turned it over to the independent company.

Q. And they in turn paid it to the shareholders of the limited company? A. They will when the company is wound up.

Q. Were the shareholders of the limited company and the members of the Association substantially the same group of people? A. No sir.

Q. What in the main is the difference? A. The Crown Fruit Company had a number of grower shareholders who became members of the cooperative as well, so that in that case you had a minority group in the new company.

Q. But speaking generally? A. They were entirely new.

Q. Speaking generally, were not the growers who became members of the cooperative association the same as those who had formed the shareholders of the other company while operating as a private concern? A. No. That is far from the fact.

Q. When the new association was formed, these hold-backs or deductions were retained with a view to paying the





purchase price which the association had agreed to pay to the limited company for its assets? A. Yes.

Q. As to how that money has been handled by the limited company you have no knowledge? A. Yes.

Q. How was it handled once the old company got its purchase price in its hands? A. It still has cash in its hands.

Q. Have they distributed it in any way? A. I can't think of one which has yet distributed its assets.

Q. The purchase price is still held by the limited companies? A. Yes.

THE CHAIRMAN: As auditor, have you any knowledge of the purpose for which these companies were transformed from one form of enterprise to another?

THE WITNESS: Yes. Under the central selling arrangement, the independent, shall we say, found the growers more anxious to handle their own crops, and the tendency was for the growers to want to run their own organization entirely.

THE CHAIRMAN: Is it more profitable for these enterprises to carry on as they presently exist than it was for them as limited companies previously?

THE WITNESS: They are more liable to retain their growers.

THE CHAIRMAN: I am speaking from the financial point of view.

THE WITNESS: I don't see any difference, sir.

THE CHAIRMAN: Their returns would be the same?

THE WITNESS: The returns are exactly the same.

THE CHAIRMAN: Subject to taxation.

THE WITNESS: Subject to taxation. They must make a profit before they are subject to taxation.

THE CHAIRMAN: We suspect that that is so.





THE WITNESS: Consequently the independent must compete with the cooperative.

BY MR. ELLIOTT:

Q. I wonder if Counsel would explore in his clarifying way the meaning of a phrase at the bottom of the first page: "...some of the principals of our companies had to use personal savings to meet this need." I am not clear as to the meaning of "principals" and the way in which these personal savings were used.

BY MR. PARKER:

Q. Will you explain that? The sentence reads: "Since corporation income tax was increased and the 100 per cent profits tax inaugurated it has been impossible to provide, from current net profits, the additional buildings and equipment so urgently needed, and some of the principals have had to use personal savings to meet this need." I suppose you mean some of the principal shareholders?

A. Yes.

Q. The people who were best able to put up a little money? A. Yes.

Q. When you say "had to use personal savings" you do not mean savings in the sense in which we have heard that word used in dealing with cooperatives? A. No.

Q. They are spare cash? A. Yes.

Q. In other words, they had to guarantee the company's loan or put up money. A. Yes, guarantee it at the bank or put up additional capital.

Q. What do you mean by additional capital -- buying additional shares? A. Yes.

Q. These companies had shares held in the treasury to sell at any time? A. Yes.

MR. PARKER: Does that clear up the point, Mr. Elliott?



MR. ELLIOTT: Yes, I believe so. In some cases, they have guaranteed loans and in other cases purchased?

THE WITNESS: Yes.

MR. PARKER: And sometimes made straight loans?

THE WITNESS: Yes.

BY MR. VAUGHAN:

Q. Mr. Cheyne, you said that five cents a barrel was deducted from apples? A. A box.

Q. In order to pay for the assets. How much per box did the ones who went into the cooperative gain as compared with what they were receiving before they went cooperative? A. I could not tell you that.

Q. I mean net. A. The returns one year are quite different from the returns of another year and it is also quite difficult to compare returns, one packing house with another.

Q. But there was some financial gain by reorganizing? A. They must have felt they would get profits. There can be little difference between the returns of one packing house and those of another.

Q. Do you say that the saving or profit was used to pay for the assets of the companies that were bought? A. Excuse me; I did not get that.

Q. When the firm became cooperative, were the savings made in the cooperative used to pay for the assets of the companies which went into it? A. Yes. Excuse me; it seems I am at cross purposes with you. The net amount of the pool price of that particular grade of apple is set -- that is, the total amount received by that particular shipper for that particular grade of apples is distributed equally among the growers of that pool. From that amount is deducted five cents per box and that amount



goes to the pool account, which account is used to pay off the purchase price.

Q. Were those savings used in order to buy the assets of those companies which turned from stock companies into cooperatives? A. Can I get that clear? You say the savings ---

Q. You say there were certain savings. A. Well then, you haven't got me correctly. When I said savings, it is really a contribution by the grower to the fund.

Q. No matter what you call it, there is some benefit by turning from a stock company to a cooperative?

A. There might or might not be according to how close the margin might be. A company operating with a million packages might be making less than a third of a cent a box net profit. The operation of one year might be quite different the next year. You cannot tell, because a company made a profit one year, that it would necessarily have a profit the next year.

Q. You say it was this saving that went towards paying for the assets of the companies taken over? A. No.

Q. What was the five cents? A. A straight deduction from the amount of money which would have been paid to that grower.

Q. Would there not be some financial gain, some way or other, either in better price or in reduced cost of operation under the cooperative? A. Ordinarily speaking, what would have been a profit of the independent company would now be going to the grower.

Q. Was that profit used to purchase assets?

A. But, sir, in the first place the original company had its capital invested and therefore had no interest to pay on that capital except the profit they earned. When the co-





operative purchased it they did not have capital invested and they had interest sufficient to wipe out the original profit. That disappears as the liability disappears. It is possible a company might operate in the same way as a limited liability company and make a profit under exactly the same conditions, and the next year that profit might be used to pay interest on indebtedness.

Q. My point is this: Was it used to pay for part of the capital taken over from these joint stock companies? There were certain assets taken over? A. Not as such. It was a straight deduction from the grower from the price he would otherwise have got, and went to pay off the liability.

Q. There must have been a margin between the cost of the grower and the selling price which enabled him to allow a certain amount to be deducted. There was a greater spread in the cooperative? A. I don't think so.

Q. What would be the purpose of going into the cooperative? A. They feel they want to run their own business.

THE CHAIRMAN: Whether you call the result a profit, a gain or a surplus, what was the difference, from the standpoint of these companies, as between the time they were operating as stock companies and the time they were operating as cooperatives? Was there any difference? Was this so-called gain, surplus, or whatever you choose to call it, any different from one year to another? A. Yes.

THE CHAIRMAN: Why?

THE WITNESS: Because the established packing price, the nominal packing price set in one house is different from that of another, and that is decided by the directors or the growers saying, "We will charge fifty cents", while another group operating in the same town



might say, "We will charge forty cents". You cannot tell me which is correct and which is incorrect. One wants to carry a bigger margin than another.

BY MR. ELLIOTT:

Q. Is this on consignment? A. Entirely on consignment. The company does not own the fruit.

BY MR. PARKER:

Q. This transfer takes place in the following order: first, the joint stock company offers to sell its physical assets for a specified sum? A. Yes.

Q. And they put themselves in the position where they say, "This is a cooperative association." One corporate body is prepared to buy the physical assets of another corporate body. That is the position? A. Yes.

Q. And a price is agreed upon between them?  
A. Yes.

Q. The seller says, "I am prepared to accept so much" and the buyer says, "I am prepared to buy", and an agreement is arrived at? A. Yes.

Q. The buyer at that time has no money to pay except a small amount of share capital? A. Yes.

Q. And so a transfer of assets is made to this corporate body and it begins to handle fruit. The association receives fruit on a consignment basis, markets it, gets the proceeds in its hands, and out of these proceeds, by agreement with each individual grower, retains three, five or seven cents a package? A. Yes.

Q. That sum is then set aside and is used for the purpose of making payment on the purchase price to the limited company. A. Yes.

Q. That may extend for one, two, three, four or five years until the purchase price is discharged? A. Yes.



Q. Is that the way it takes place? A. Yes.

Q. And that is all there is to it? A. Yes.

Q. And from then on the new association becomes the usual type of cooperative association. It keeps on selling its members' fruit and keeps on even after the purchase price is paid, continuing to make a deduction, perhaps of a smaller amount per package. At any rate, it keeps on making that deduction? A. Some of them.

Q. Do you follow me? The deductions are continued and they are set aside as reserves. Is that the usual practice? A. It depends on what you call reserves.

Q. What would you call it? A. It is set aside as capital.

Q. Is it not called reserves in their set-up?  
A. Some cooperatives put a certain part into reserves.

Q. You agree with me to the extent that they set it aside and call it reserves? A. To a small extent.

Q. Why do you object to my use of the word reserves when in the very companies whose books you are auditing they call them reserves? A. You are reading a meaning into my words which is not there. The cooperative puts this deduction into their capital. Some parts they put into reserve, but it is a small part.

Q. I do not care whether it is big or small; they put some part? A. Yes.

Q. What do they do with the rest of the deduction? Do they use it for working capital? A. Yes.

Q. What is the difference? Don't they use the reserve for working capital? A. Yes.

Q. Then what is the difference really? What is the difference if you divide a sum of money into two parts and use both parts for the same purpose? A. The reserve is an





amount you intend to retain for an indefinite period, a period longer than you intend to retain the capital. Every cooperative does not do that. You must not put it down as my statement that all cooperatives do that.

Q. I did not say all cooperatives. I suggest it as a general rule. Do you agree with that? A. Yes, but I don't agree with the principle.

Q. Let us confine our discussion to the two or three companies we are talking about. Do you know how they do it? A. Yes.

Q. Name one. A. The Crown Fruit Company use a small amount as reserve.

Q. They make how many cents deduction, do you know? A. I don't know.

Q. Assume that it is five cents. Out of that, how much do they hold as reserve? A. None of it.

Q. I thought you were giving me a company which set aside a small part as reserve. A. No. When they work out the expenses at the end of the year they also add a very small amount as a reserve.

Q. That is what I said. A. No. You said they deducted it out of the five cents, which is a different thing.

Q. They charge their reserve up as part of the expense? A. Yes.

Q. And what they hold back they use as working capital? A. Yes.

BY MR. FRANCIS:

Q. May I direct one or two questions to the witness in order to clear up a phrase which I believe I heard used, or one similar to it, that a private company had turned





itself into a cooperative. At another time it was put in this way -- turning a stock company into a cooperative. I want to clear that up. I will put it this way and the witness can tell me if I am wrong: Is it a fact that in a certain area the growers organize their own business to handle their own commodities in a cooperative? A. That is correct.

Q. And having organized their own business to handle their commodities, they require facilities? A. That is right.

Q. And requiring those facilities, I take it, they can either build them -- which in war time is difficult -- or acquire existing facilities? A. That is correct.

Q. And in looking around for facilities they naturally go where those facilities are? A. That is right.

Q. And the facilities are naturally in the hands of those who have been doing business of that type? A. Yes.

Q. Therefore an approach is made to the people who have the facilities? A. Yes.

Q. And it happens in certain cases to be a private company? A. Yes.

Q. So that the facilities are acquired by one group to be used in their own business from another group that has been carrying on private business? A. Yes.

Q. Take one of these examples -- any one except Crown. Take one within your personal knowledge, but don't select the Crown concern. Is it correct to say -- or, first of all, will you name one? A. Cascade.

Q. Take Cascade. A. No; I don't know that. Let us say British Columbia Orchards.

Q. Well, select British Columbia Orchards. Is it a fact that in the case of the purchase of the facilities of



British Columbia Orchards by the new organization none of the shareholders in the private company are the same persons as the growers? A. That is correct.

Q. So that you have two groups of individuals?

A. Yes.

Q. And it is not a case of the old members of a private company turning their organization into a cooperative? A. That is correct.

Q. It is a case of a group of growers organized together and acquiring facilities for their own use from British Columbia Orchards? A. Yes.

Q. What is the price of British Columbia Orchards, in round figures?

MR. PARKER: Need we go into that?

MR. FRANCIS: Yes. It is important and I shall show the relevancy in a moment.

THE WITNESS: I am afraid I can't tell you. It is hard to keep my brain centred in one place.

BY MR. FRANCIS:

Q. Several thousand dollars? A. Yes.

Q. At any rate, a large amount? A. Oh yes.

Q. That large amount is paid over by the cooperative to the private company? A. Yes.

Q. In due course. A. Yes.

Q. There is usually a cash payment? A. Not always.

Q. But there may be? A. In this case there was.

Q. What is done by the vendor, that is the private company, with the money that it gets from the cooperative? What is done with it? A. It is still lying in the original company.

Q. It is invested? A. Yes.



Q. And as an investment it will yield an income?

A. Yes.

Q. And that will be an investment income? A. Yes.

Q. And you know from your knowledge that an investment income yields a higher tax rate than an ordinary income?

A. Yes.

Q. So that an investment income from the investment of the purchase price of the facilities may yield a very substantial income tax? A. Yes.

Q. Let us look at the other side of the picture. The growers have acquired certain facilities. They are now handling their commodities. Is it not true that before they go into business themselves they are in receipt of certain incomes? A. Yes.

Q. And is it a fact that they acquire these facilities in order to improve their incomes? A. I presume so.

Q. Do you know that? A. No. They might merely wish to handle their own products, but generally speaking that is the idea.

Q. As a result of controlling their own business, can you say whether they do improve their own income? That is the evidence. Would you disagree with the evidence given here? A. No.

Q. If they improved their own individual income, would that make them liable to more personal income tax?

MR. PARKER: That is obvious.

BY MR. FRANCIS:

Q. Let me complete the picture. You will agree that on the one side the grower may improve his income and therefore make more available tax revenue. On the other hand, you will agree that there may be some tax revenue from the investment of the purchase price? A. Yes.





Q. The statement was made yesterday, but not established by evidence, that \$100,000,000 was lost in revenue to the Dominion because of the change-over from private business to cooperative business.

MR. PARKER: Who made that statement?

BY MR. FRANCIS:

Q. It appeared in Mr. Tupper's brief. Is it as simple as that? I am trying to give an illustration. You are a chartered accountant. Is it as simple as that?

A. No; definitely not.

Q. There are a lot of factors to be considered?

A. Yes.

Q. And they are of a financial nature? A. Yes.

Q. Just one other point. I understood you to use this phrase, that cooperatives build up -- I don't think this is your own statement but it is from your brief -- that cooperatives build up from tax-exempt reserves the money to buy the business. That is the effect of the statement in the brief. Later on, in examination by my learned friend, I think you used the words "free contributions" by the growers. A. Yes.

Q. And this five cents a box is really a contribution by the grower? A. Yes.

Q. So that in giving your own opinion you say that the new business is acquired by contribution from growers?

A. Yes.

BY MR. VAUGHAN:

Q. What is the financial position of the fruit growers on whose behalf you are speaking? Do they earn a lot of money or do they make an ordinary living? A. I have an orchard myself and I wish I could get as good a return from my other investments.



Q. It is quite profitable? A. Yes, definitely. That applies to a good orchard. A poor orchard is a liability; I would not take it as a gift.

Q. You admit that it is a profitable business.  
A. That is, under present conditions.

Q. But you admit that it is a profitable business -- fruit growing. A. At the present time; but that has not been always the case. Far from it.

Q. Then there is no tax at all today although it is a profitable business? A. Will you repeat that?

Q. I say there is no tax paid although you say it is a profitable business. A. There is no tax paid by the cooperative because it does not make a profit. But there is no corporation tax paid by myself even though I employ a number of people in my organization. I have quite an organization and I am exempt from taxation, and so is the legal profession. You may have an organization of ten or more lawyers who do not pay corporation tax. You may have an organization of ten or more lawyers who do not pay corporation tax.

MR. PARKER: They are not incorporated.

THE WITNESS: True.

MR. FRANCIS: Their income has not reached that point; it is limited.

THE CHAIRMAN: And their liabilities are quite unlimited.

MR. FRANCIS: Yes, my Lord.

BY MR. VAUGHAN:

Q. Do you operate your orchard on a cooperative basis or on a private-ownership basis? A. On a cooperative basis although it is not incorporated. In other words, I share my profits with my employees and thereby contribute



to my success.

BY MR. ARNASON:

Q. On the first page of the brief you refer to a central selling agency known as British Columbia Tree Fruits Limited, the facilities of which agency are used by both cooperatives and independents. Is that so? A. Yes.

Q. I wonder whether you could describe briefly the functions of this agency, how it is controlled, and by whom. A. The growers own and control Tree Fruits Limited. Prior to its formation we had independent companies selling through one organization and other independent companies selling also, and we had a number of grower shippers. There were others selling through independent selling organizations.

Q. There were a number of agencies? A. Yes, a number of selling organizations all cutting each other's throats at the first opportunity, and they smashed prices to such an extent that finally the growers organized and, shall I say, practically compelled the Government to give them legislation to control the market. That was done before the war.

Q. Was that under the British Columbia Natural Products Marketing Act? A. Yes. Since then all sales of Okanagan fruit must pass through that central selling agency, the British Columbia Tree Fruits Limited.

THE CHAIRMAN: We will declare the case closed.

MR. PARKER: The next presentation is that of the Vancouver, Victoria and New Westminster Insurance Agents' Associations. Mr. Cameron Craig will give evidence.

CAMERON CRAIG,

Secretary,  
Vancouver, Victoria and New Westminster  
Insurance Agents' Associations,  
having been duly sworn testified  
as follows:





BY MR. PARKER:

Q. You are the Secretary of the Vancouver, Victoria and New Westminster Insurance Agents' Associations?

A. Yes.

Q. This brief is signed by Frank Monahan, the Chairman of the Association, and accompanying letter is signed by him. This witness advises me that Mr. Monahan is of necessity out of town and this gentlemen has been asked to appear in his place. Before you begin, Mr. Craig, I might ask you this question. The Association is not an incorporated body? A. No sir.

Q. Do I understand that the insurance agents in the three centres in question have each a local unincorporated association? A. Yes.

Q. And do I understand that the three of you got together and discussed affairs relating to your business? A. Yes.

Q. And you are presenting this as a joint representation by the three associations? A. Yes.

Q. And the other two have asked you to speak on their behalf? A. Yes.

Q. By "insurance agent" I take it we are to understand the ordinary life insurance salesman? A. No sir, other than life, fire and casualty.

Q. Not mutual? A. No.

Q. You are here speaking their views in relation to this question? A. Yes. This is not a brief that governs the insurance business. It is merely a general submission asking for equitable treatment. It reads as follows:

"INASMUCH AS the Government of the Dominion of Canada  
derives a large part of the national revenue





from income taxes on individuals and income excess profits taxes from partnerships and joint stock companies and corporations, and "INASMUCH AS cooperative, mutual and reciprocal organizations are presently exempt from the payment of the said income and excess profits taxes, and

"INASMUCH AS it is understood that the Royal Commission appointed under the Enquiries Act will, in part, examine into the matter of taxation in respect to the said cooperative, mutual and reciprocal organizations,

"IT IS SUBMITTED for consideration by the Royal Commission,

(1) THAT part of the national revenue derived by the Government of the Dominion of Canada for the conduct of the business of the nation through the imposition of income and excess profits taxes should be so derived by the application of the basic principle of equal treatment for all nationals, each in accordance with ability to pay,

(2) THAT an examination into the public accounts of the so-called cooperative, mutual and reciprocal organizations now conducting their businesses on a tax-free basis will disclose the essential facts that these organizations possess the ability to pay taxes in the same proportion to earnings as do taxpaying individuals and other business enterprises,

(3) THAT the tax exempt privilege under which the said cooperative, mutual and reciprocal organizations are now conducting their businesses places them in a preferred position to the detriment of all other taxpaying individuals and business enterprises and that where preferential treatment is given to one section to the detriment of other



sections of national life; the national economy is dislocated to the extent and in the proportion that the tax burden of the majority is weighted by the tax exemptions of the minority, and, in conclusion,

(4) THAT while the Dominion of Canada remains a democratic country in which all forms of business may legally operate under free enterprise, it must be left to the individuals to decide the particular organization they wish to operate under, but regardless of whether they be individuals, partnerships or joint stock companies, cooperative, mutual and reciprocal organizations, the tax burden by which the Government obtains the national revenue should be distributed equally amongst all with neither preferential nor detrimental treatment to any.

"All of which is respectfully submitted,

Vancouver Insurance Agents' Association  
Victoria & District Insurance Agents'  
Association  
New Westminster Insurance Agents'  
Association

Per: Frank Monahan,  
Chairman. "

.....

BY MR. PARKER:

Q. "Each in accordance with ability to pay." Just what does your association mean by that? A. It means, as they understand it, that parliament when it passed the Income Tax Act and the Excess Profits Tax Act, and also the Government, when they devised the schedule of income taxes, said in effect to one group, "Your ability to pay is in accordance with the schedule to the Act", and also provided an exemption which said to another group, "If you call yourself a mutual or reciprocal or cooperative organization then you have no ability to pay."



Q. In other words, that is your Association's interpretation of the Statute. In your view, the Statute properly interpreted means that you are not to pay according to your ability but something different? A. Yes.

Q. There is no such expression in the Statute as ability to pay? A. No; it is merely an interpretation.

Q. That is the policy which your association believes should be the basis of taxation? A. Yes.

Q. Under the submissions, in the second paragraph you have these words: "That an examination into the public accounts of the so-called cooperatives....."

A. That should be "published".

Q. What do you mean by reciprocal organizations?

A. There are reciprocal insurance companies.

Q. What are they? A. The explanation would be rather a long one. It could be called mutual in the general sense.

Q. Are there two distinctly organized types of companies -- mutual and reciprocal? A. Yes; there are.

BY MR. ELLIOTT:

Q. Is your Association presenting this submission primarily as a matter of public interest, or do you feel that as individuals the members of the Association are being discriminated against? A. Both. It is in the interests of the public at large and of our section of that public in particular.

Q. Would you mind telling us just how you feel you are being injured -- the members of your Association?

A. I would say this, if I may. The Government in a given year decides that a certain part of the national revenue is required through income and excess profits taxes. To use an arbitrary figure, say three billion dollars:





if there are business companies, joint stock companies, partnerships, and individuals who are providing all that money, and if it is proved that there are cooperatives, mutuals and similar organizations who, through the law, may be avoiding the payment of, let us say, one hundred or two hundred million dollars in taxes, if the government's original figure of three billion dollars is correct, then by readjustment the rest of the public would benefit to the extent I have stated.

Q. That is, as a taxpayer -- like other taxpayers, you would say -- you feel you are discriminated against?

A. Yes.

Q. Do your members feel they are discriminated against as insurance agents? A. Yes.

Q. You do not think the interest in the matter is confined to your section of the public? A. No, sir. It is a matter of general public interest.

BY MR. VAUGHAN:

Q. There is nothing in the obtaining of business by insurance agents that is affected? A. It could be argued, I think, that perhaps the preferential treatment which the mutual insurance company gets might result in discrimination. Our insurance agents are representing joint stock companies. The joint stock companies pay taxes while the mutual insurance company does not.

Q. I understand that. But in the section on whose behalf you are speaking -- the agents who handle the business of securing insurance -- how are you affected by the mutuals? Are your rates or the conditions under which you operate different in such a way as to effect the insurance agent in the securing of business? A. No. There is a difference in the rates, but I don't know that we



would consider that. We were merely considering taxation.

BY MR. ELLIOTT:

Q. Was it suggested to you by any person or association or company that it would be a good idea for you to make a presentation to us? A. No, sir. It is a matter of policy. We are represented at the superintendents' conference or in any convention where our interests are involved.

THE CHAIRMAN: That closes the case?

MR. PARKER: Yes, Mr. Chairman. There was a brief filed some time ago by the Richmond Milk Company, represented by Mr. Cheyne. Mr. Cheyne has advised me that they do not wish to have it dealt withdrawn. If he wishes to withdraw it there is no objection; it will simply disappear from our records. Is that correct, Mr. Cheyne?

MR. CHEYNE: Yes; that is correct.

THE CHAIRMAN: The brief is withdrawn.

MR. PARKER: That takes care of all the briefs of which I have knowledge. Yesterday some mention was made of the possibility of Counsel who so desired being given an opportunity to make a short summary of their case. If there are Counsel present who wish to do that, and if it is the wish of the Commission that they be heard, I am ready to proceed.

MR. LOCKE: I have nothing further to say.

MR. MILLIKEN: This morning there were five short briefs filed with the Commission and not read. Will Counsel have an opportunity to see them?

THE CHAIRMAN: That was yesterday afternoon.

MR. MILLIKEN: I believe it was the first thing this morning.



THE CHAIRMAN: I think not. It was yesterday afternoon. They were letters. We did not record them as briefs.

MR. MILLIKEN: Would it be possible for Counsel to see them?

THE CHAIRMAN: Probably, though they do not add much to the arguments, which have been brought forward and which we shall no doubt hear repeated all across the country. Since the allegations contained in the letters are not supported they are not of any interest to us.

MR. CHEYNE: The Richmond Milk Producers, while they withdraw their brief, wish to make a protest or a denial of the statements made in Mr. Farris' brief. Unfortunately, their executive is not available, but they would like to refute the statements made by Mr. Farris regarding their organization.

THE CHAIRMAN: Their brief is there; that is all we can do with it.

MR. PARKER: No. It has been withdrawn.

THE CHAIRMAN: Are we speaking of the same thing?

MR. CHEYNE: Mr. Farris made certain statements in his brief which the Richmond Milk Producers wish to deny. What opportunity have they of proving that those statements are incorrect?

THE CHAIRMAN: I do not recollect any evidence advanced by Mr. Farris in regard to that particular organization.

MR. CHEYNE: On page twenty-eight.

THE CHAIRMAN: An unsupported statement in a brief does not constitute proof. Do you remember it, Mr. Parker?

MR. PARKER: It is quite possible that before we reach Halifax a great many things will be said by some people about others. Every time one company's name is





mentioned by another company, is the company alluded to going to come forward to make a correction?

THE CHAIRMAN: You must not be too thin-skinned, Mr. Cheyne.

MR. CHEYNE: I am not thin-skinned, but there were malicious statements made.

THE CHAIRMAN: If that was so, you should not have withdrawn your brief. People should be here to rebut. You will have to let it stand. I think I should say again that the Commission is very appreciative of the manner in which the business has gone forward, without any hitch and, I am glad to say, apparently with the full cooperation of Counsel, for which I have pleasure in thanking them. The sessions are now closed.

--- The Commission thereupon adjourned to meet in Calgary on Monday, January 22, at 10 a. m.

.....













HANDBOUND  
AT THE



UNIVERSITY OF  
TORONTO PRESS



